

# MARIN HEALTHCARE DISTRICT

100-B Drake's Landing Road, Suite 250, Greenbrae, CA 94904  
[www.marinhealthcare.org](http://www.marinhealthcare.org)

Telephone: 415-464-2090  
[info@marinhealthcare.org](mailto:info@marinhealthcare.org)

Fax: 415-464-2094

**TUESDAY, APRIL 24, 2018**

**6:00 pm: SPECIAL CLOSED SESSION**

**6:30 pm: SPECIAL OPEN MEETING**

## **Board of Directors:**

**Chair:** Ann Sparkman, JD  
**Vice Chair:** Jennifer Hershon, RN, MSN  
**Secretary:** Jennifer Rienks, PhD  
**Directors:** Larry Bedard, MD  
Harris Simmonds, MD

## **Location:**

Finance Conference Room  
Suite 190  
100-B Drake's Landing  
Greenbrae, CA 94904

## **Staff:**

Lee Domanico, CEO  
Colin Coffey, District Counsel  
Donald Bouey, District Counsel  
Louis Weiner, Executive Assistant

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## AGENDA

Tab #

### **6:00 PM: SPECIAL CLOSED SESSION**

- |  |          |
|--|----------|
| 1. Call to Order and Roll Call   | Sparkman |
| 2. General Public Comment<br><i>Any member of the audience may make statements regarding any items on the agenda. Statements are limited to a maximum of three (3) minutes. Please state and spell your name if you wish it to be recorded in the minutes.</i> | Sparkman |
| 3. Closed Session  |          |
| a. Discussion involving trade secrets pursuant to Health & Safety Code Section 32106 concerning new programs, services or facilities   | Sparkman |
| 4. Adjournment of Closed Session   | Sparkman |

### **6:30 PM: SPECIAL OPEN MEETING**

- |  |          |
|--|----------|
| 1. Call to Order and Roll Call   | Sparkman |
| 2. General Public Comment<br><i>Any member of the audience may make statements regarding any items on the agenda. Statements are limited to a maximum of three (3) minutes. Please state and spell your name if you wish it to be recorded in the minutes.</i> | Sparkman |

A copy of the agenda for the Regular Meeting will be posted and distributed at least 72 hours prior to the meeting. In compliance with the Americans with Disabilities Act, if you require accommodations to participate in a District meeting please contact the District office at 415-464-2090 (voice) or 415-464-2094 (fax) at least 48 hours prior to the meeting. Meetings open to the public are audio-recorded; the recordings are posted on the District web site and retained for 1 month.

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- |   |             |         |
|---|-------------|---------|
| 3. First Reading of Revised MGH Bylaws, as Required by the Proposed Strategic Alliance between Marin General Hospital and UCSF Health | Domanico    | Handout |
| 4. Approve Revenue Bond Financing (action)  | McManus     | #2      |
| 5. Approve 2017 Report of Independent Auditors (action)   | McManus     | #3      |
| 6. Approve Under Arrangements Billing Agreement for MAIC (action)   | Zielazinski | #4      |
| 7. Adjournment of Special Open Meeting / Board Study Session  | Sparkman    |         |

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## **Tab 2**



# **Revenue Bonds Financial Review**

## **Documents:**

- ♦ **Document Summary**
- ♦ **Plan of Finance**
- ♦ **Corporate Resolution**
- ♦ **Master Trust Indenture**
- ♦ **Supplemental Master Indenture**
- ♦ **Bond Indenture**
- ♦ **CSCDA Loan Agreement**
- ♦ **Bond Purchase Agreement**
- ♦ **Continuing Disclosure Agreement**
- ♦ **Preliminary Official Statement**
- ♦ **Appendix A**
- ♦ **MADS Coverage**



# **1. Document Summary**

**Master Trust Indenture.** The master trust indenture establishes an Obligated Group comprising Marin General Hospital (MGH) and Prima Medical Foundation (PMF), as Obligated Group Members. MGH and Prima enter into this document with U.S. Bank National Association, as master trustee. Under the master trust indenture, MGH and PMF each pledge their gross revenues as security for the obligations issued under the master trust indenture, and obligations can be issued under the master trust indenture to secure debt of MGH and PMF. The master trust indenture also contains financial covenants.

**Supplemental Master Indenture.** The supplemental master indenture provides for the issuance of specific obligations to support particular financings.

**Bond Indenture.** The bond indenture is between the Authority and the bond trustee. It contains the security provisions and describes the terms of the bonds, for example, principal and interest payment mechanics and dates, redemption provisions, the events that constitute a default, and the remedies in an event of default. It is pursuant to the bond indenture that the bond trustee sets up various funds and accounts, to hold and administer the bond proceeds, and to deposit principal and payment dates.

**Loan Agreement.** The loan agreement is between the Authority and MGH. In the loan agreement, the Authority agrees to loan to MGH the proceeds of the bonds and MGH agrees to make loan repayments sufficient to pay principal and interest on the bonds. MGH also agrees in the loan agreement to indemnify the Authority against certain liabilities that may arise relating to the Bonds. The loan agreement also contains certain representations and covenants made by MGH to the Authority.

**Bond Purchase Agreement.** The Bond Purchase Agreement will specify the purchase price of the bonds to be paid by the underwriters, the interest rates, maturity dates and principal amounts of each maturity of the bonds, the date, time and place of the closing of the bond issue, the allocation of the expenses incurred in connection with the bond issue, the parties' representations to and agreements with each other and the conditions which MGH must satisfy before the underwriters become obligated to purchase the bonds.

**Continuing Disclosure Agreement.** Federal securities laws indirectly require obligors of bonds to disclose and annually update certain financial and operating information relevant to the security and repayment of bonds. The Continuing Disclosure Agreement contains the undertakings of the MGH to provide the ongoing disclosure in the form of annual and quarterly reports and event notices.

**Official Statement and Appendix A.** The Official Statement (in its preliminary and final form) is used to provide information to investors and prospective investors about MGH and the bonds. The bonds constitute securities for purposes of state and federal securities laws and, therefore, the offering and sale of the bonds through the Official Statement is subject to certain provisions of such laws, including, importantly, the anti-fraud laws. The Official Statement sets forth information about the terms of the bonds, the security for the bonds, the sources and uses of the proceeds of the bonds, the risks associated with investing in the bonds, the documents under which the bonds are issued, and the tax-exemption of interest on the bonds. Appendix A, which

is part of the Official Statement, more particularly describes MGH and PMF, as Obligated Group Members, including the financial conditions and revenues of the Obligated Group.



## **2. Plan of Finance**





# Plan of Finance Overview and Preliminary Sources & Uses Detail

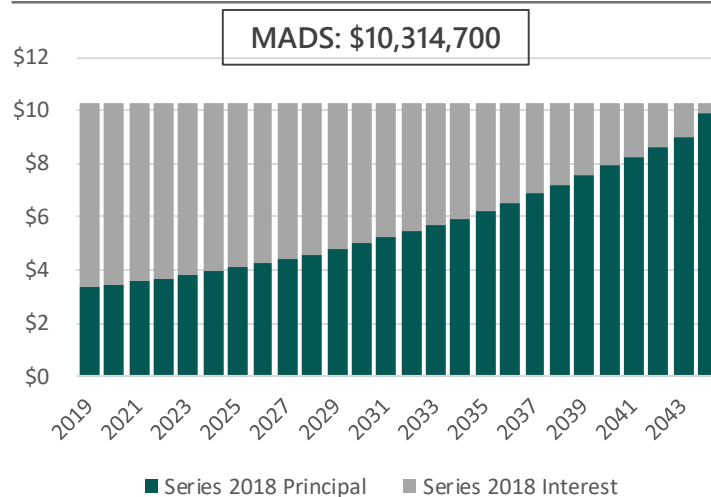
## Sources & Uses

Preliminary Sources	2018A	2018B	Total
Series 2018 Par Amount	94,075,000	64,815,000	158,890,000
Premium	6,904,845	-	6,904,845
<b>Total Sources</b>	<b>\$100,979,845</b>	<b>\$64,815,000</b>	<b>\$165,794,845</b>
Preliminary Uses	2018A	2018B	Total
MGH 2.0 Project Fund	84,583,727	-	84,583,727
MGH Reimbursement	6,416,273	-	6,416,273
Other New Money	6,800,000	-	6,800,000
Working Capital	2,000,000	-	2,000,000
Union Bank Facilities	-	64,000,000	64,000,000
Cost of Issuance	1,179,845	815,000	1,994,845
<b>Total Uses</b>	<b>\$100,979,845</b>	<b>\$64,815,000</b>	<b>\$165,794,845</b>

## Overview

- Marin General Hospital is planning to bond for
  - MGH 2.0 construction costs that are not already covered by the previously issued G.O. Bonds or philanthropy
  - Refinance Union Bank Facilities
  - Working capital and other new money
- The 2018A Revenue Bonds will be long-term tax-exempt fixed rate bonds
- The 2018B Bonds will be long-term taxable fixed rate bonds

## Series 2018 Debt Service Schedule (\$ in millions)



## Series 2018 Statistics

Par	Interest Rate Mode	Next Call Date
\$158,890,000	Fixed	8/1/2028
Final Maturity	Average Life	All-in TIC
8/1/2045	16.8 years	4.22%

Note: Preliminary Subject to Change



## **3. Corporate Resolution**



**RESOLUTION OF  
THE BOARD OF DIRECTORS OF  
MARIN HEALTHCARE DISTRICT**

**April 24, 2018**

WHEREAS, Marin Healthcare District (“District”) owns a 235-bed tertiary hospital (the “Hospital”) in Greenbrae, Marin County, California, that it leases to, and is operated by, Marin General Hospital (“MGH”), a California nonprofit public benefit corporation (“MGH”), pursuant to a Hospital Lease dated December 2, 2015 (the “Lease”); and

WHEREAS, the District is the sole corporate member of MGH; and

WHEREAS, MGH desires to request the California Statewide Communities Development Authority (the “Authority”) to issue its Revenue Bonds (Marin General Hospital), Series 2018, in one or more series, as federally tax-exempt or federally taxable bonds (collectively, the “Bonds”), to (i) finance and refinance the acquisition, construction, improvement and equipping, including working capital costs, of certain health care facilities operated by MGH and located at or near 250 Bon Air Road, Greenbrae, California, including the Hospital, (ii) refinance a term loan and revolving credit facility from Union Bank, N.A. to MGH (the “Union Bank Loan”), and (iii) pay certain costs associated with the issuance of the Bonds; and

WHEREAS, concurrently with the issuance of the bonds MGH will establish an obligated group with Prima Medical Foundation , a California nonprofit public benefit corporation (“Prima”) of which MGH is the sole corporate member, (collectively, the “Obligated Group Members” or “Obligated Group” and, each individually, an “Obligated Group Member”) pursuant to a Master Trust Indenture (the “Master Trust Indenture”) among MGH, Prima and U.S. Bank National Association, as master trustee (the “Master Trustee”); and

WHEREAS, the Master Trust Indenture shall provide for the issuance of Master Indenture Obligations and their execution and delivery by the Obligated Group Representative, and the payments of such Master Indenture Obligations shall be the joint and several obligations of each Obligated Group Member ; and

WHEREAS, the Master Trust Indenture also includes the grant of a security interest of Gross Revenues (as defined in the Master Trust Indenture) of the Obligated Group; and

WHEREAS, the transactions described above are collectively referred to herein as the “Financing”; and

WHEREAS, there has been presented at this meeting and is on file with the Secretary of this Board a summary of the terms of the Financing, and draft copies of the Master Trust Indenture, Supplemental Master Indenture between MGH and the Master Trustee, Bond Indenture between the Authority and The Bank of New York Mellon Trust Company, N.A., as bond trustee, Loan Agreement between the Authority and MGH, Bond Purchase Agreement among the Authority, MGH and Morgan Stanley & Co. LLC, as underwriter and representative of the other underwriters named therein, Continuing Disclosure Agreement between MGH and a dissemination agent as defined therein, Preliminary Official Statement, and Appendix A thereto, (collectively, the “Bond Documents”) are available to the District Board members; and



WHEREAS, pursuant to the Lease, the written consent of the District is required for MGH to enter into and consummate the Financing, including the making of certain capital expenditures at the Hospital; and

WHEREAS, pursuant to the bylaws of MGH, the approval of the District is required to enter into and consummate the Financing; and

WHEREAS, MGH seeks the consent and approval of the District for the Financing; and

WHEREAS, it is consistent with the purposes of, and in the best interests of, the District for MGH to enter into the Master Trust Indenture and the Bond Documents and other related Financing agreements and documents, and to obtain the proceeds from the Bonds and use them to (i) finance and refinance the acquisition, construction, improvement and equipping, including working capital costs, of certain health care facilities operated by MGH as provided above, including the Hospital, (ii) refinance the Union Bank Loan, and (iii) and pay certain costs associated with the issuance of the Bonds; and

NOW, THEREFORE, BE IT AND IT IS HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE DISTRICT AS FOLLOWS:

1. Approval of the Financing. The Board hereby consents to and approves the Financing described in the preambles to this Resolution. This Resolution shall constitute written consent to and evidence of approval of the Board to the Financing for purposes of the Lease and MGH's bylaws.

2. Appointment of and Delegation of Authority to Authorized Representatives and Other Acts. The Board hereby appoints the Chief Executive Officer, Lee Domanico, and the Chief Financial Officer, James McManus, of District and each of them (the "Authorized Representatives"), as the authorized representatives of District to execute and deliver such certificates and other documents which any of them may deem necessary or advisable in order to constitute further evidence of this Board's approval of the Financing.

3. Ratification. The Board hereby ratifies, confirms and readopts each resolution, motion and other action heretofore taken by it and by any of its Authorized Representatives and agents in connection with the Financing, and any prior resolution or other action of this Board which conflicts with the provisions of this Resolution is hereby repealed and rescinded to the extent of such conflict. All of the acts of such officers and agents of District which are in conformity with the intent and purposes of this Resolution, whether heretofore or hereafter taken or done, shall be, and the same are, hereby ratified, confirmed and approved in all aspects.

4. Effective Date. This Resolution shall take effect and be in full force immediately after its adoption by this Board.

PASSED AND ADOPTED by the Board of Directors of Marin Healthcare District on this 24th day of April, 2018.

By

\_\_\_\_\_  
Jennifer Rienks, PhD  
Secretary, Board of Directors

## **Tab 3**



**Report of Independent Auditors &  
Financial Statements  
December 31, 2017**

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*Report of Independent Auditors  
and Financial Statements*

**Marin Healthcare District**

*December 31, 2017 and 2016*

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## **Management's Discussion and Analysis**

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# **Marin Healthcare District Management's Discussion and Analysis For the Years Ended December 31, 2017 and 2016**

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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 fiscal year ended December 31, 2017 and 2016. 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 and non-capital and related 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 MGH and is governed by a publicly-elected Board of Directors.

**Marin Healthcare District  
Management's Discussion and Analysis  
For the Years Ended December 31, 2017 and 2016**

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**ANALYTICAL REVIEW**

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

Condensed Statements of Net Position

	DECEMBER 31,	
	2017	2016
Current and other assets	\$ 286,030,967	\$ 106,970,585
Capital assets, net of accumulated depreciation	191,722,405	98,097,972
Total assets	477,753,372	205,068,557
Current portion of bond payable	6,050,000	2,645,000
Other current liabilities	33,393,091	12,508,667
Bond payable, net of current portion	400,179,342	163,093,475
Long-term debt and other long-term liabilities	1,039,635	1,053,996
Total liabilities	440,662,068	179,301,138
Net position		
Net investment in capital assets	57,755,403	29,024,571
Unrestricted deficit	(20,664,099)	(3,257,152)
Total net position	37,091,304	25,767,419
Total liabilities and net position	\$ 477,753,372	\$ 205,068,557

Total assets increased by 133% or \$272,684,815 as of December 31, 2017 compared to December 31, 2016, primarily as a result of the sale of bonds and expenditures for construction costs related to the hospital facility.

Liabilities increased by 146% or \$261,360,930 as of December 31, 2017 compared to December 31, 2016, as a result of the sale of bonds.

The overall changes to net assets is an increase of \$11,323,885, resulting in a December 31, 2017 balance of \$37,091,304. An unrestricted deficit of \$20,644,099 exists for the year ended December 31, 2017 as a result of the timing of construction payments.

**Marin Healthcare District  
Management's Discussion and Analysis  
For the Years Ended December 31, 2017 and 2016**

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

	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 23,073,923	\$ 20,193,105
Operating expenses	<u>35,648,816</u>	<u>28,835,201</u>
Operating loss	<u>(12,574,893)</u>	<u>(8,642,096)</u>
Support from Marin General Hospital (MGH)	11,401,720	8,072,571
Bond issuance costs	(583,641)	(15,597)
Tax revenue	13,012,474	562,573
Interest expense	(652)	(11,440)
Other revenue	<u>68,877</u>	<u>20,145</u>
Total non-operating revenues, net	<u>23,898,778</u>	<u>8,628,252</u>
Increase/(decrease) in net position	<u>\$ 11,323,885</u>	<u>\$ (13,844)</u>

*Operating Revenues and Expenses*

Operating losses are primarily due to the losses incurred from the 1206(b) Clinics. The 1206(b) Clinic operating deficits are funded by MGH.

*Non-Operating Revenues and Expenses*

Under terms of an agreement with the District, MGH provides support to the District equal to the losses incurred by the 1206(b) Clinics.

Tax revenue represents property tax assessments by Marin County on District property owners, which will be used to make bond interest and principal payments in the future. Property tax assessments are based upon expected debt service for the following year and vary depending on scheduled bond principal and interest payment amounts.

**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 the Marin General Hospital facility and related facilities with new construction, acquisitions, and renovations.

In November 2015, the District issued \$170,000,000 of bonds, at a premium, resulting in total proceeds of \$178,687,120. A portion of those proceeds were used to reimburse MGH for the construction of a parking structure and for design and site improvements preparatory to the commencement of construction of the new hospital facility.

In September 2017, the District issued \$224,000,000 of bonds, at a premium, resulting in total proceeds of \$243,612,033. The proceeds will be used for the construction of the new hospital facility.

**Marin Healthcare District  
Management's Discussion and Analysis  
For the Years Ended December 31, 2017 and 2016**

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**BUDGET RESULTS**

The Board of Directors approves the operating budget of the District. The budget remains in effect the entire period, but is updated as needed for internal management use to reflect changes in activity and approved variances. A budget comparison and analysis for the year ended December 31, 2017 is presented below.

	DECEMBER 31, 2017	
	Actual	Budget
Operating revenues	\$ 23,073,923	\$ 25,516,669
Operating expenses	35,648,816	35,917,220
Operating loss	(12,574,893)	(10,400,551)
Support from Marin General Hospital (MGH)	11,401,720	8,874,072
Bond issuance costs	(583,641)	-
Tax revenue	13,012,474	-
Interest expense	(652)	(23,605)
Other revenue	68,877	3,000
Non-operating revenues	23,898,778	8,853,467
Change in net position	\$ 11,323,885	\$ (1,547,084)

The budget above is a combination of the budget for the operations of the 1206(b) Clinics and the budget for the operations of the District, which includes bond related revenue and expenses.

**Operating revenues** – When new Clinic physicians are projected to be added, assumptions are made as to how quickly they will be able to increase the volume of patients treated. The actual timing of these “ramp-ups” leads to variations in revenue. As with any medical practice, the precise payer mix of patients seen is difficult to predict and often leads to variances. Clinic operating revenues were \$2,443,246 in deficit of budget and District operating revenues were \$500 in excess of budget.

**Operating expenses** – In addition to budgeting for Clinic activity, the District also conducts programs outside of the Clinics such as community healthcare education and support for hospital programs. Clinic expenses were \$119,932 in excess of budget.

**Support from Marin General Hospital** – By agreement, MGH provides support to the District equal to the net losses incurred by the Clinics. As a result, the amount of support provided varies directly with the Clinic operating losses.

**Other revenue** – The District earned interest income from the accounts in which the investments are held, and notes receivable.

**Marin Healthcare District  
Management's Discussion and Analysis  
For the Years Ended December 31, 2017 and 2016**

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**CAPITAL ASSETS**

As of December 31, 2017, the District had \$191,722,405 invested in a variety of capital assets, as reflected in the following schedule, which represent a net increase (additions less depreciation) of \$93,624,433 from December 31, 2016. The increases in year ended December 31, 2017 is the result of the construction of the new hospital facility.

	Balance at	
	December 31, 2017	December 31, 2016
Land and improvements	\$ 2,498,287	\$ 2,498,287
Construction in progress	161,419,900	68,351,311
Building	51,695,531	49,820,735
Equipment	21,138,561	21,018,545
Less accumulated depreciation	(45,029,874)	(43,590,906)
Capital assets, net of accumulated depreciation	\$ 191,722,405	\$ 98,097,972

**Construction in progress** – Expenditures continue to be made from the bond proceeds for the construction of the new hospital facility.

**LONG-TERM DEBT**

The increase in long-term debt from December 31, 2016 to December 31, 2017 is primarily due to the issuance of Series 2017 bonds. As of December 31, 2017, \$6,050,000 is to be repaid in 2018 and is included in current liabilities.

**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 December 31, 2017 and 2016, 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 District'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 District'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 December 31, 2017 and 2016, and the changes in its financial position 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 6 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, which 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.

Sacramento, California

 , 2018

## **Financial Statements**

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**Marin Healthcare District**  
**Statements of Net Position**  
**December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 2,651,515	\$ 1,791,964
Investments	1,063,851	1,011,164
Current portion of bond assets held in trust	20,377,616	9,234,350
Patient accounts receivable, net of allowance for doubtful accounts of \$299,238 and \$30,386 as of December 31, 2017 and 2016, respectively	3,279,764	2,298,666
Tax revenue receivable	5,296,212	1,776,393
Other receivables	649,111	1,494,729
Prepaid expenses	224,782	51,252
Inventory	15,692	15,692
	<u>33,558,543</u>	<u>17,674,210</u>
Total current assets	33,558,543	17,674,210
Deposits	72,633	1,072,633
Capital assets, net of accumulated depreciation	191,722,405	98,097,972
Bond assets held in trust	251,884,724	87,651,435
Intangible assets, net of accumulated amortization	515,067	572,307
	<u>477,753,372</u>	<u>205,068,557</u>
Total assets	\$ 477,753,372	\$ 205,068,557
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 2,331,285	\$ 2,475,913
Accrued expenses	877,094	578,418
Accrued construction costs	25,001,092	6,484,725
Accrued interest expense	5,149,259	2,745,563
Current portion of notes payable	34,361	224,048
Current portion of bonds payable	6,050,000	2,645,000
	<u>-</u>	<u>-</u>
Total current liabilities	39,443,091	15,153,667
Notes payable, net of current portion	1,039,635	1,053,996
Bonds payable, net of current portion	400,179,342	163,093,475
	<u>440,662,068</u>	<u>179,301,138</u>
Total liabilities	440,662,068	179,301,138
<b>NET POSITION</b>		
Net investment in capital assets	57,755,403	29,024,571
Unrestricted deficit	(20,664,099)	(3,257,152)
	<u>37,091,304</u>	<u>25,767,419</u>
Total net position	37,091,304	25,767,419
Total liabilities and net position	\$ 477,753,372	\$ 205,068,557

**Marin Healthcare District**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2017 and 2016**

	2017	2016
<b>OPERATING REVENUE</b>		
Net patient service revenue	\$ 22,563,423	\$ 19,692,230
Lease income	510,500	500,875
	<b>23,073,923</b>	<b>20,193,105</b>
<b>OPERATING EXPENSES</b>		
Salaries and benefits	26,095,604	20,724,488
Rent	2,392,671	1,781,370
Purchased services	3,069,331	2,450,719
Depreciation and amortization	1,496,208	1,017,132
Supplies	1,433,281	1,188,876
Insurance	158,577	127,230
Other	1,003,144	1,545,386
	<b>35,648,816</b>	<b>28,835,201</b>
<b>OPERATING LOSS</b>	<b>(12,574,893)</b>	<b>(8,642,096)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Support from Marin General Hospital (MGH)	11,401,720	8,072,571
Bond issuance costs	(583,641)	(15,597)
Tax revenue	13,012,474	562,573
Interest expense	(652)	(11,440)
Other revenue	68,877	20,145
	<b>23,898,778</b>	<b>8,628,252</b>
<b>INCREASE/(DECREASE) IN NET POSITION</b>	<b>11,323,885</b>	<b>(13,844)</b>
<b>NET POSITION, beginning of year</b>	<b>25,767,419</b>	<b>25,781,263</b>
<b>NET POSITION, end of year</b>	<b>\$ 37,091,304</b>	<b>\$ 25,767,419</b>

**Marin Healthcare District**  
**Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from tenants	\$ 510,500	\$ 500,875
Receipts from patients	21,582,325	19,278,255
Payments to employees and physicians	(25,893,508)	(20,489,596)
Payments to suppliers and others	(7,278,582)	(8,217,732)
Net cash from operating activities	<u>(11,079,265)</u>	<u>(8,928,198)</u>
<b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from MGH for operations	12,021,338	7,148,569
Proceeds from loan for MMPC retainer	-	500,000
Net cash from non-capital and related financing activities	<u>12,021,338</u>	<u>7,648,569</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from issuance of bonds	243,612,033	-
Purchases of capital assets	(68,376,129)	(46,254,362)
Principal payments on bonds payable	(2,645,000)	(12,615,000)
Tax revenue related to general obligation bonds	9,492,655	9,228,439
Bond issuance costs	(583,641)	(15,597)
Principal payments for Cardiovascular Associates of Marin and San Francisco Medical Group, Inc. (CAMSF)-related note payable	-	(200,000)
Proceeds from loan for CAMSF asset acquisition	-	200,000
Payment of notes payable to physicians	(8,048)	-
Proceeds from MGH loan for physician	30,000	20,711
Interest payments on bonds payable, net	(6,749,468)	(4,813,862)
Interest payments on notes payable	(652)	(11,440)
Net cash from (used in) from capital and related financing activities	<u>174,771,750</u>	<u>(54,461,111)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	-	(1,000,000)
Purchase of bond assets held in trust	(976,373,613)	(220,956,269)
Proceeds from sales and maturities of bond assets held in trust	801,503,151	275,369,305
Interest gain	16,190	8,981
Net cash from (used in) investing activities	<u>(174,854,272)</u>	<u>53,422,017</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>859,551</b>	<b>(2,318,723)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>1,791,964</b>	<b>4,110,687</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b><u>\$ 2,651,515</u></b>	<b><u>\$ 1,791,964</u></b>

**Marin Healthcare District**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2017 and 2016**

	2017	2016
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES</b>		
Operating loss	\$ (12,574,893)	\$ (8,642,096)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	1,496,208	1,017,132
Provision for bad debts	72,708	121,466
Changes in certain assets and liabilities:		
Patient accounts receivable	(1,053,806)	(535,441)
Deposits	1,000,000	(487,161)
Prepaid expenses	(173,530)	(31,332)
Accounts payable	(144,628)	(158,413)
Accrued expenses	298,676	(212,353)
	<b>\$ (11,079,265)</b>	<b>\$ (8,928,198)</b>
<b>SUPPLEMENTAL NON-CASH ACTIVITIES INFORMATION</b>		
Loan forgiveness from MGH	<b>\$ (226,000)</b>	<b>\$ (582,667)</b>

# Marin Healthcare District

## Notes to Financial Statements

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### 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) formed pursuant to California Health and Safety Code Section 1206(b). The Clinics contract with physicians to provide health care services within the communities served by the District.

It is in the District's nature to continue to expand its clinic network to contract with physicians and provide healthcare services within the communities served by the District. Until August 2017, Marin Medical Practice Concepts (MMPC), a management company, provided billing and collection services for the 1206(b) clinics of the District. MMPC also provided the District with management and administrative services for the clinics pursuant to a management services agreement until December 2017, at which point, the District assumed all management and administrative services for the clinics. In August 2017, California Healthcare Medical Billing, Inc. (CHMB) assumed the billing and collection services for the 1206(b) clinics of the District. There were two new clinics added and one closed in 2017. As of December 31, 2017 and 2016, there were thirteen and twelve clinics operating, respectively.

**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. Tax revenue is recognized in the period in which the property tax is levied. Tax revenue is collected by the County for payment, when due, of the principal and interest on the bonds.

**Accounting standards** – Pursuant to Government Accounting Standards 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, property tax revenue, 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.

In February 2015, the GASB issued Statement No. 72 (GASB 72), Fair Value Measurement and Application. This statement addresses accounting and financial reporting issues related to fair value measurements and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. GASB 72 is effective for the current fiscal year. See Fair Value Measurements in Note 3.

**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. The District is in a deficit position for the years ended December 31, 2017 and 2016.

**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.

**Investments** – Investments consist of mutual funds and are stated at fair value. Realized, unrealized gains and losses, and interests are included in the statements of revenue, expenses, and changes in net position as other revenue. Interest of \$35,362 and \$23,531, and realized and unrealized gains of \$52,687 and \$11,164 for the years ended December 31, 2017 and 2016, respectively, are included in other revenue on the statement of revenues, expenses and change in net position.

**Bond assets held in trust** – The District reports all investments at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers. Realized and unrealized gains/(losses) of \$1,412,823 and (\$264,196) offset capitalized interest which is included in capital assets on the statement of net position as of December 31, 2017 and 2016, respectively.



## Marin Healthcare District Notes to Financial Statements

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**Capital assets** – Capital assets are recorded at cost. Depreciation is provided for 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 year ended December 31, 2017 and 2016.

**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 year ended December 31, 2017 and 2016.

**Note receivable** – The District entered into a note receivable with an individual physician for \$80,000 in July 2015. The note has an interest rate of 6.5% and is secured by residential property. The District is to receive monthly payments of principal and interest of \$1,565 until maturity in 2020. In accordance with the agreement between the District and the physician, the entire monthly amount, including principal and accrued interest, shall be forgiven each month.

The District entered into a note receivable with an individual physician for \$40,000 in February 2016. The note has an interest rate of 5.0% and is secured by interest in accounts receivable arising out of the physician's medical practice. The District is to receive monthly payments of principal and interest varying from \$300 to \$1,220 until maturity in 2020. In accordance with the agreement between the District and the physician, the entire monthly amount, including principal and accrued interest, shall be forgiven each month.

The District entered into a note receivable with an individual physician for \$70,000 in June 2016. The note has an interest rate of 5.0% and is secured by interest in accounts receivable arising out of the physician's medical practice. The District is to receive monthly payments of principal and interest of \$2,098 until maturity in 2019. In accordance with the agreement between the District and the physician, the entire monthly amount, including principal and accrued interest, shall be forgiven each month.

The District entered into a note receivable with an individual physician for \$60,000 in October 2016. The note has an interest rate of 5.0% and is secured by interest in accounts receivable arising out of the physician's medical practice. The District is to receive monthly payments of principal and interest of \$1,132 until maturity in 2021. In accordance with the agreement between the District and the physician, the entire monthly amount, including principal and accrued interest, shall be forgiven each month.

The District entered into a note receivable with an individual physician for \$40,000 in January 2017. The note has an interest rate of 6.0% and is secured by interest in accounts receivable arising out of the physician's medical practice. The District is to receive monthly payments of principal and interest of \$1,217 until maturity in 2020. In accordance with the agreement between the District and the physician, the entire monthly amount, including principal and accrued interest, shall be forgiven each month.

**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.

## Marin Healthcare District Notes to Financial Statements

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.

**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 (see Note 6).

**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 \$72,708 and \$121,466 for the years ended December 31, 2017 and 2016, respectively.

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

	2017	2016
Medicare	35%	38%
Medi-Cal	11%	18%
Commercial	29%	28%
Self-pay	16%	13%
Other	9%	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 the year ended December 31, 2017 and 2016, the District provided approximately \$14,644 and \$1,304, respectively, 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

**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.

**Amortization of bond premiums** – Premiums arising from the issuance of bonds are capitalized and amortized using the straight line amortization method, which approximates the effective interest method.

### NOTE 2 – CASH, CASH EQUIVALENTS, INVESTMENTS, AND BOND ASSETS HELD IN TRUST

The District’s cash, cash equivalents, investments, and bond assets held in trust as of December 31, were as follows:

	2017	2016
Cash in bank	\$ 2,345,717	\$ 1,489,192
State of California's Local Agency Investment Fund (LAIF)	305,798	302,772
	<u>2,651,515</u>	<u>1,791,964</u>
Cash and cash equivalents		
Investments		
Mutual funds	1,063,851	1,011,164
Bond assets held in trust		
Cash	2,929,024	-
Money market funds	28,668,685	9,922,628
U.S. treasury obligations	53,330,659	4,885,559
Commercial papers	-	3,339,199
Government agency securities	187,333,972	78,738,399
	<u>272,262,340</u>	<u>96,885,785</u>
<b>Total</b>	<u><u>\$ 275,977,706</u></u>	<u><u>\$ 99,688,913</u></u>

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.

**Cash in bank** – Cash in the bank represents amounts held in the District’s general operating accounts.

**LAIF** – The District places certain funds with the 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.

The management of the state of California Pooled Money Investment Account has indicated to the District that as of December 31, 2017 and 2016, the estimated market value of the pool (including accrued interest) was \$28,038,411 and \$27,801,689, respectively. The District’s proportionate share of that value is \$305,798 and \$302,772 as of December 31, 2017 and 2016, respectively.

**Mutual funds** – the District’s mutual funds are primarily invested in government and corporate debt, asset backed securities, and global debt. The objective of these funds is to provide steady cash flow to investors.

**Bond assets held in trust** – Investments from proceeds of bond issuances are restricted by applicable California law and the various bond resolutions associated with each issuance, generally, to certain types of investments. These investments include obligations of the United States of America, Federal Housing Administration debentures, obligations of government-sponsored agencies, unsecured certificates of deposits, demand deposits, time deposits and bankers’ acceptances, deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation in banks, commercial paper, money market funds, state obligations, the Marin County Investment Pool, and LAIF.

The District’s investments include amounts held in trust by the Paying Agent. The District currently invests in cash, money market funds, US Treasury obligations, mutual funds, and government agency securities issued by highly rated investment companies, and management regularly monitors the credit rating of the investment companies issuing the investments as part of monitoring the District’s exposure to credit risk.

**Investment risk factors** – Many factors can affect the value of investments such as credit risk, custodial credit risk, and concentration of credit risk.

**Credit risk** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District’s investment policy requires that, to be eligible for investment, the investments shall be rated “AAm” or “AAm-G” by S & P or better and the investment pool maintained by the county in which the District is located or other investment pools, in either case, so long as such pool is rated in one of the two highest rating categories by S&P and Moody’s. As of December 31, 2017, the investments held are all considered investment grade and are rated equal to or greater than AAm or AAm-G by S&P and Moody’s.

# Marin Healthcare District

## Notes to Financial Statements

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**Custodial credit risk** – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District 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 investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the District 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.

**Concentration of credit risk** – Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the District to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. The securities the District is invested in as of December 31, 2017 are subject to the quality, diversification, and other requirements of Rule 2a-7 under the Investment Company Act of 1940, as amended and other rules of the Securities and Exchange Commission. The District will only purchase securities that present minimal credit risk.

### NOTE 3 – FAIR VALUE OF MEASUREMENTS

GASB 72, Fair Value Measurement and Application, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1** – Quoted prices in active markets for identical assets

**Level 2** – Observable inputs other than Level 1 prices, such as quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

**Level 3** – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

## Marin Healthcare District Notes to Financial Statements

The following tables present information about the District's assets measured at fair value on a recurring basis as of December 31, 2017 and 2016:

2017	Fair Value at Reporting Date Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash	\$ 2,929,024	\$ -	\$ -	\$ 2,929,024
Money market funds	28,668,685	-	-	28,668,685
U.S. treasury obligations	53,330,659	-	-	53,330,659
Mutual funds				
Asset backed securities	156,443	-	-	156,443
Global debt	325,183	-	-	325,183
Govt/Corp intermediate	470,859	-	-	470,859
Other mutual funds	111,366	-	-	111,366
	<u>1,063,851</u>	<u>-</u>	<u>-</u>	<u>1,063,851</u>
Government agency securities				
Sovereign related finance	-	187,333,972	-	187,333,972
	<u>-</u>	<u>187,333,972</u>	<u>-</u>	<u>187,333,972</u>
Total	<u>\$ 85,992,219</u>	<u>\$ 187,333,972</u>	<u>\$ -</u>	<u>\$ 273,326,191</u>

2016	Fair Value at Reporting Date Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Money market funds	\$ 9,922,628	\$ -	\$ -	\$ 9,922,628
U.S. treasury obligations	4,885,559	-	-	4,885,559
Commercial papers	3,339,199	-	-	3,339,199
Mutual funds				
Asset backed securities	150,725	-	-	150,725
Global debt	302,495	-	-	302,495
Govt/Corp intermediate	451,531	-	-	451,531
Other mutual funds	106,413	-	-	106,413
	<u>1,011,164</u>	<u>-</u>	<u>-</u>	<u>1,011,164</u>
Government agency securities				
Sovereign related finance	-	78,738,399	-	78,738,399
	<u>-</u>	<u>78,738,399</u>	<u>-</u>	<u>78,738,399</u>
Total	<u>\$ 19,158,550</u>	<u>\$ 78,738,399</u>	<u>\$ -</u>	<u>\$ 97,896,949</u>

During 2017 and 2016, there was no activity in level 3 investments.

# Marin Healthcare District

## Notes to Financial Statements

GASB Statement No. 40 requires the District to disclose the maturities of its investments (other than U.S. government obligations or obligations guaranteed by the U.S. government). A summary of scheduled maturities by investment type as of December 31, 2017 and 2016 follows:

2017	Investment maturities (in years)			
	Fair Value	Less than 1	1 - 5	More than 5
Cash	\$ 2,929,024	\$ 2,929,024	\$ -	\$ -
Money market funds	28,668,685	28,668,685	-	-
U.S. treasury obligations	53,330,659	53,330,659	-	-
Government agency securities	187,333,972	187,333,972	-	-
	<u>\$ 272,262,340</u>	<u>\$ 272,262,340</u>	<u>\$ -</u>	<u>\$ -</u>
Mutual Funds	1,063,851			
	<u>\$ 273,326,191</u>			
2016	Investment maturities (in years)			
	Fair Value	Less than 1	1 - 5	More than 5
Money market funds	\$ 9,922,628	\$ 9,922,628	\$ -	\$ -
U.S. treasury obligations	4,885,559	4,885,559	-	-
Commercial Papers	3,339,199	3,339,199	-	-
Government agency securities	78,738,399	78,738,399	-	-
	<u>\$ 96,885,785</u>	<u>\$ 96,885,785</u>	<u>\$ -</u>	<u>\$ -</u>
Mutual Funds	1,011,164			
	<u>\$ 97,896,949</u>			



## Marin Healthcare District Notes to Financial Statements

### NOTE 4 – CAPITAL ASSETS

The following is a summary of changes in capital assets during the years ended December 31, 2017 and 2016:

	Life (Years)	Balance December 31, 2016	Additions	Deletions	Transfers	Balance December 31, 2017
<b>Non-depreciable</b>						
Land	N/A	\$ 865,701	\$ -	\$ -	\$ -	\$ 865,701
Construction in progress	N/A	68,351,311	94,943,385	-	(1,874,796)	161,419,900
<b>Total non-depreciable</b>		69,217,012	94,943,385	-	(1,874,796)	162,285,601
<b>Depreciable</b>						
Equipment	3 – 20	18,784,416	-	-	-	18,784,416
Hospital buildings	40	49,715,786	-	-	1,874,796	51,590,582
Parking structure	40	2,324	-	-	-	2,324
Phase 1 building	40	102,625	-	-	-	102,625
Other improvements	40	851,182	-	-	-	851,182
Parking improvements	40	781,404	-	-	-	781,404
Moveable equipment	3 – 20	2,234,129	120,016	-	-	2,354,145
<b>Total depreciable</b>		72,471,866	120,016	-	1,874,796	74,466,678
<b>Accumulated depreciation</b>						
Hospital buildings	N/A	(21,168,850)	(1,343,036)	-	-	(22,511,886)
Fixed equipment	N/A	(18,784,416)	-	-	-	(18,784,416)
Leasehold improvements	N/A	(1,377,895)	-	-	-	(1,377,895)
Major moveable equipment	N/A	(1,090,730)	(15,028)	-	-	(1,105,758)
Minor equipment	N/A	(10,343)	(6,469)	-	-	(16,812)
1206B Clinic equipment	N/A	(1,122,733)	(74,435)	-	-	(1,197,168)
1206B Leasehold improvements	N/A	(35,939)	-	-	-	(35,939)
<b>Total accumulated depreciation</b>		(43,590,906)	(1,438,968)	-	-	(45,029,874)
<b>Total depreciable, net</b>		<b>28,880,960</b>	<b>(1,318,952)</b>	<b>-</b>	<b>1,874,796</b>	<b>29,436,804</b>
<b>Total capital assets, net</b>		<b>\$ 98,097,972</b>	<b>\$ 93,624,433</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 191,722,405</b>



## Marin Healthcare District Notes to Financial Statements

	Life (Years)	Balance December 31, 2015	Additions	Deletions	Transfers	Balance December 31, 2016
<b>Non-depreciable</b>						
Land	N/A	\$ 865,701	\$ -	\$ -	\$ -	\$ 865,701
Construction in progress	N/A	41,505,721	51,587,292	-	(24,741,702)	68,351,311
Total non-depreciable		42,371,422	51,587,292	-	(24,741,702)	69,217,012
<b>Depreciable</b>						
Equipment	3 – 20	18,784,416	-	-	-	18,784,416
Hospital buildings	40	24,974,084	-	-	24,741,702	49,715,786
Parking structure	40	2,324	-	-	-	2,324
Phase 1 building	40	102,625	-	-	-	102,625
Other improvements	40	851,182	-	-	-	851,182
Parking improvements	40	781,404	-	-	-	781,404
Moveable equipment	3 – 20	2,176,728	57,401	-	-	2,234,129
Total depreciable		47,672,763	57,401	-	24,741,702	72,471,866
<b>Accumulated depreciation</b>						
Hospital buildings	N/A	(20,409,764)	(759,086)	-	-	(21,168,850)
Fixed equipment	N/A	(18,784,416)	-	-	-	(18,784,416)
Leasehold improvements	N/A	(1,377,895)	-	-	-	(1,377,895)
Major moveable equipment	N/A	(1,090,730)	-	-	-	(1,090,730)
Minor equipment	N/A	(10,343)	-	-	-	(10,343)
1206B Clinic equipment	N/A	(924,455)	(198,278)	-	-	(1,122,733)
1206B Leasehold improvements	N/A	(33,411)	(2,528)	-	-	(35,939)
Total accumulated depreciation		(42,631,014)	(959,892)	-	-	(43,590,906)
Total depreciable, net		5,041,749	(902,491)	-	24,741,702	28,880,960
Total capital assets, net		\$ 47,413,171	\$ 50,684,801	\$ -	\$ -	\$ 98,097,972

**Construction and other capital commitments** – As of December 31, 2017 and 2016, the District has spent \$132,327,382 and \$45,554,900, respectively, related to various construction and other capital projects in progress. The District estimates an additional \$198,468,982 will be required in 2018 for ongoing projects. As of December 31, 2017, the District has outstanding commitments with contractors for approximately \$25,001,092 and \$6,484,725 related to these projects.

**NOTE 5 – INTANGIBLE ASSETS**

The District acquired intangible assets as part of the acquisition of assets from CAMSF (see Note 7).

The following is a summary of changes in intangible assets during the year ended December 31:

	Life (Years)	December 31, 2016	Additions	Deletions	December 31, 2017
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		(286,197)	(57,240)	-	(343,437)
Intangibles, net of accumulated amortization		<u>\$ 572,307</u>	<u>\$ (57,240)</u>	<u>\$ -</u>	<u>\$ 515,067</u>

	Life (Years)	Balance December 31, 2015	Additions	Deletions	Balance December 31, 2016
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		(228,957)	(57,240)	-	(286,197)
Intangibles, net of accumulated amortization		<u>\$ 629,547</u>	<u>\$ (57,240)</u>	<u>\$ -</u>	<u>\$ 572,307</u>

**NOTE 6 – 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 of capital expenditures made by MGH and quarterly payments of approximately \$97,000 for the year ended December 31, 2015. The minimum cash payment, which is payable in quarterly installments, increases annually by 5% throughout the lease term. The lease matured on December 1, 2015 and a new lease commenced on December 2, 2015.

# Marin Healthcare District

## Notes to Financial Statements

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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. The total rent received for the years ended December 31, 2017 and 2016 was \$510,500 and \$500,875, respectively.

The minimum future rental income under the agreement, exclusive of any increases related to the CPI, is as follows:

<u>Years Ending December 31,</u>	
2018	\$ 500,000
2019	500,000
2020	500,000
2021	500,000
2022	500,000
Thereafter	<u>11,458,333</u>
	<u>\$ 13,958,333</u>

### NOTE 7– NOTES PAYABLE AND ACQUISITION

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.

In July 2015, in accordance with the agreement between the District and MGH, MGH loaned \$80,000 to cover the District's payment to a physician who is associated with the Marin Urology Center Clinic. A portion of the loan will be forgiven each month over the five-year term of the contract with the physician.

In January 2017, in accordance with the agreement between the District and MGH, MGH loaned \$30,000 to cover the District's payment to a physician who is associated with the Marin Endocrinology Group. A portion of the loan will be forgiven each month over the three-year term of the contract with the physician.

## Marin Healthcare District Notes to Financial Statements

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. In August 2016, the agreement was amended to increase the amount of the current advance from \$500,000 to \$1,000,000. The agreement for management services terminated in December 2017 and the vendor repaid the outstanding balance of \$1,000,000. This balance remains payable to MGH and has been classified as non-current as of December 31, 2017.

The activity for notes payable for the year ended December 31, 2017 and 2016 is as follows:

	Balance December 31, 2016	Additions	Deletions	Balance December 31, 2017	Due Within One Year
Note payable to MGH	\$ 1,257,333	\$ 30,000	\$ (226,000)	\$ 1,061,333	\$ 26,000
Note payable to Olympus	20,711	-	(8,048)	12,663	8,361
	<u>\$ 1,278,044</u>	<u>\$ 30,000</u>	<u>\$ (234,048)</u>	<u>\$ 1,073,996</u>	<u>\$ 34,361</u>

	Balance December 31, 2015	Additions	Deletions	Balance December 31, 2016	Due Within One Year
Note payable to CAMSF	\$ 200,000	\$ -	\$ (200,000)	\$ -	\$ -
Note payable to MGH	1,140,000	700,000	(582,667)	1,257,333	216,000
Note payable to Olympus	-	20,711	-	20,711	8,048
	<u>\$ 1,340,000</u>	<u>\$ 720,711</u>	<u>\$ (782,667)</u>	<u>\$ 1,278,044</u>	<u>\$ 224,048</u>

Debt service requirements for notes payable are as follows:

<u>Years ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 34,361	\$ -
2019	30,302	-
2020	9,333	-
2021	-	-
2022	-	-
Thereafter	1,000,000	-
	<u>\$ 1,073,996</u>	<u>\$ -</u>

## Marin Healthcare District Notes to Financial Statements

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### NOTE 8 – BONDS PAYABLE

On November 10, 2015, the District issued \$157,385,000 of Marin Healthcare District General Obligation Bonds, Election of 2013, Series 2015A, and \$12,615,000 of Marin Healthcare District General Obligation Bonds, Election 2013, Series 2015B. The 2015A and 2015B bonds bear interest at rates of 2.00% to 5.00% and 0.40%, respectively. Interest on the bonds will accrue from the date of delivery and is payable semiannually on February 1 and August 1 each year, commencing on February 1, 2016. Principal amounts will be paid on August 1.

On September 7, 2017, the District issued \$224,000,000 of Marin Healthcare District General Obligation Bonds, Election of 2013, Series 2017A. The 2017A bonds bear interest at rates of 2.00% to 5.00%. Interest on the bonds will accrue from the date of delivery and is payable semiannually on February 1 and August 1 each year, commencing on February 1, 2018. Principal amounts will be paid on August 1.

The bonds were authorized at an election held in the District on November 5, 2013, at which more than two-thirds of the qualified electors voting on the proposition voted to authorize the issuance and sale of up to \$394,000,000 principal amount of general obligation bonds of the District (Measure F). The bond proceeds are authorized to be used to make seismic upgrades to MGH to meet stricter California earthquake standards; to expand and enhance emergency and other medical facilities; to provide the latest lifesaving medical facilities for treatment of heart, stroke, and other diseases, to reduce emergency room wait times; to improve MGH and related facilities with new construction, acquisitions, and renovations; pay all necessary legal, financial, engineering, and contingent costs in connection therewith.

The Series 2015A Bonds maturing on or before August 1, 2025 are not subject to redemption prior to their respective stated maturity dates. The Series 2015A Bonds maturing on or after August 1, 2026 are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of funds, in whole or in part, on August 1, 2025 or on any date thereafter at par amount thereof, without premium, together with interest accrued thereon to the date of redemption. The Series 2015A Bonds maturing on August 1, 2040 and on August 1, 2045 shall be subject to redemption prior to maturity, without a redemption premium, in part by lot, from mandatory sinking fund payments, beginning August 1, 2036 and August 1, 2041, respectively. The Series 2015B Bonds are not subject to redemption prior to maturity.

The Series 2017A Bonds maturing on or before August 1, 2027 are not subject to redemption prior to their respective stated maturity dates. The Series 2017A Bonds maturing on or after August 1, 2028 are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of funds, in whole or in part, on August 1, 2027 or on any date thereafter at par amount thereof, without premium, together with interest accrued thereon to the date of redemption.

The District incurred interest costs related to the General Obligation Bonds of \$8,519,891 and \$6,413,351 for the years ended December 31, 2017 and 2016, respectively. In accordance with GASB 62, the District capitalized \$8,170,905 and \$5,237,363 in interest for the years ended December 31, 2017 and 2016, respectively, due to the ongoing construction.

The general obligation bonds represent the general obligation of the District. The Board of Supervisors of the County has the power and is obligated to cause annual ad valorem taxes to be levied upon all property within the District, subject to taxation by the District, and collected by the County for payment, when due, of the principal and interest on the bonds.

## Marin Healthcare District Notes to Financial Statements

The activity for bonds payable for the year ended December 31, 2017 and 2016 is as follows:

	Outstanding December 31, 2016	Issued	Matured / Redeemed During Year	Outstanding December 31, 2017	Due Within One Year
General obligation bonds					
Series 2015 bonds	\$ 157,385,000	\$ -	\$ (2,645,000)	\$ 154,740,000	\$ -
Series 2017 bonds	-	224,000,000	-	224,000,000	6,050,000
Plus					
Series 2015 premium	8,353,475	-	(296,573)	8,056,902	-
Series 2017 premium	-	19,612,033	(179,593)	19,432,440	-
Total	<u>\$ 165,738,475</u>	<u>\$ 243,612,033</u>	<u>\$ (3,121,166)</u>	<u>\$ 406,229,342</u>	<u>\$ 6,050,000</u>
	Outstanding December 31, 2015	Issued	Matured / Redeemed During Year	Outstanding December 31, 2016	Due Within One Year
General obligation bonds					
Series 2015 bonds	\$ 170,000,000	\$ -	\$ (12,615,000)	\$ 157,385,000	\$ 2,645,000
Plus					
Series 2015 premium	8,650,045	-	(296,570)	8,353,475	-
Total	<u>\$ 178,650,045</u>	<u>\$ -</u>	<u>\$ (12,911,570)</u>	<u>\$ 165,738,475</u>	<u>\$ 2,645,000</u>

A summary of debt service requirements for the next five years and to maturity as of December 31, 2017 is as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 6,050,000	\$ 14,327,616
2019	6,645,000	15,555,850
2020	190,000	15,290,050
2021	430,000	15,286,250
2022	680,000	15,275,500
2023 – 2027	8,990,000	75,742,500
2028 – 2032	29,280,000	72,134,300
2033 – 2037	60,915,000	62,471,400
2038 – 2042	103,435,000	46,690,500
2043 – 2047	162,125,000	20,524,600
Total	<u>\$ 378,740,000</u>	<u>\$ 353,298,566</u>

### NOTE 9 – 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.

# Marin Healthcare District

## Notes to Financial Statements

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**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.

### NOTE 10 – RELATED PARTY TRANSACTIONS

The following transactions are conducted with affiliated entities:

Effective December 2, 2015, the District and MGH entered into a new 30-year lease (Note 6). The lease agreement requires that MGH provide financial support to the District relating to the operation of the Clinics. MGH provided \$11,401,720 and \$8,072,571 to the District for the operation of the Clinics during the year ended December 31, 2017 and 2016, respectively. Additionally, the lease agreement also requires MGH to reimburse a portion of the District’s administrative, rent, and non-clinic expenses.

The District has a receivable of \$359,809 and \$1,142,733 due from MGH, as of December 31, 2017 and 2016, respectively, included in the statements of net position.

### NOTE 11 – OPERATING LEASES

The District leases office facilities under a non-cancelable operating lease. The total cost for the leases were \$2,236,520 and \$1,554,377 for the years ended December 31, 2017 and 2016, respectively. The future minimum lease payments were as follows:

<u>Years Ending December 31,</u>	
2018	\$ 2,393,494
2019	2,213,296
2020	2,250,252
2021	2,096,048
2022	1,601,369
2023-2027	5,877,319
	<hr/>
	\$ 16,431,778

**Tab 4**





**Under-arrangements Billing:  
Marin Advanced Imaging  
Center (MAIC)**



*Creating a healthier Marin together.*

To: MGH Board of Directors  
From: Mark A. Zielazinski  
Re: Approval of the Under Arrangements Agreement for Outpatient Diagnostic Services related to Marin Outpatient MRI  
Date: April 24, 2018

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The Marin Healthcare District has a number of “Under Arrangement” agreements with Marin General Hospital (MGH) to provide a variety of outpatient diagnostic services to our community that otherwise might not be available. This agreement is centered around providing MRI services to the community. Currently, MRI services are being provided by Marin Advanced Imaging Center (MAIC), a corporation in which MGH is a 51% owner. MGH is in the process of purchasing the remaining 49% of MAIC in order to expand the types of MRI services that the center can provide.

This agreement will allow the continued functioning of the MRI services that have been provided by MAIC and allow for expansion of the services to provide for a 3T MRI in the near future. The 3T MRI is a needed technology that would not be possible to deploy without setting up the center as an MHD Outpatient Diagnostic Services arrangement. This agreement is no different than the agreement that has allowed the Breast Center to relocate and provide state of the art Breast Health services to our community.

**Requested Action by the Board of Directors**

Motion (based on management’s recommendation): “To approve the Outpatient Diagnostic Services agreement related to Marin Outpatient MRI (MOM) by the MGH Board of Directors”.

## OUTPATIENT DIAGNOSTIC SERVICES AGREEMENT

This Outpatient Diagnostic Services Agreement (“**Agreement**”) is entered into with an effective date of July 1, 2018 (the “**Effective Date**”), by and between Marin Healthcare District, a political subdivision of the State of California and a public district (“**MHD**”), and Marin General Hospital, a California nonprofit public benefit corporation (“**MGH**”). MHD and MGH are sometimes referred to in this Agreement as a “**Party**” or collectively, as the “**Parties**.”

### Recitals

A. MHD is a health care district organized pursuant to the California Local Health Care District Law, and owns and operates clinics providing primary and specialty care (the “**Clinics**”).

B. MGH owns and operates a general acute care hospital located in Greenbrae, California (the “**Hospital**”), which includes without limitation inpatient and outpatient diagnostic services.

C. MGH wishes to engage MHD to provide certain outpatient diagnostic services to patients of the Hospital under arrangements that satisfy the requirements specified in 42 C.F.R. § 410.28 and all other applicable laws and regulations so as to permit MGH to bill and collect from patients, commercial payors and governmental payors, including without limitation the Medicare Program, on MGH’s own account the charges for such services.

Accordingly, the Parties hereby agree as follows.

### Agreement

#### 1. Definitions

- (a) “**Addendum**” shall mean the Employee Leasing Addendum.
- (b) “**Administrator**” shall mean an administrator to supervise and direct the operation of the Marin Outpatient MRI.
- (c) “**Agreement**” shall mean this Outpatient Diagnostic Services Agreement as referenced above.
- (d) “**CEO**” shall mean MHD’s Chief Executive Officer.
- (e) “**COO**” shall mean MHD’s Chief Operating Officer.
- (f) “**CFO**” shall mean MHD’s Chief Financial Officer.
- (g) “**Clinics**” shall have the definition set forth in Recital A above.
- (h) “**Claims**” shall mean all claims, actions, causes of action, controversies, charges, obligations, damages, demands, expenses, costs, fines, penalties, fees, and/or

liabilities, including, without limitation, loss, damage, or injury to or death of persons or property in any manner.

(i) **“Marin Outpatient MRI”** shall mean the premises located at 1260 South Eliseo Drive, Suite 101, Greenbrae California which is operated by MHD in which Outpatient Diagnostic Services are provided.

(j) **“Marin Outpatient MRI Patients”** shall mean all individuals receiving Outpatient Diagnostic Services.

(k) **“Effective Date”** shall mean July 1, 2018.

(l) **“Hospital”** shall have the definition set forth in Recital B above.

(m) **“MGH”** shall mean Marin General Hospital, a California nonprofit public benefit corporation.

(n) **“MHD”** shall mean the Marin Healthcare District, a political subdivision of the State of California and a public district.

(o) **“MHD Indemnified Person”** shall mean MHD’s directors, officers, employees, agents, counsel, and representatives.

(n) **“MRI”** shall mean magnetic resonance imaging.

(o) **“Outpatient Diagnostic Services”** shall mean: (i) diagnostic MRI’s for all parts of the body; (ii) MRI guided diagnostic biopsies; and (iii) planning MRI’s to support radiation oncology.

(p) **“Party” or “Parties”** shall refer to MHD and/or MGH as defined above.

2. Outpatient Diagnostic Services. MHD shall provide Outpatient Diagnostic Services to patients of the Hospital at locations approved in advance by MGH, including, but not limited to, the Marin Outpatient MRI.

3. Compensation. As compensation for the performance of Outpatient Diagnostic Services hereunder, MGH shall pay to MHD monthly compensation equal to all of MHD’s actual expenses incurred in the performance of Outpatient Diagnostic Services; provided, however, such compensation shall be offset by any amounts owed by MHD to MGH for the leasing of MGH employees in accordance with the Employee Leasing Addendum attached hereto. Such compensation shall be payable one month in arrears (by no later than the end of the succeeding month), to be determined via a reconciliation of the expenses and employee leasing costs as set forth above. In consideration of such compensation from MGH, MHD hereby assigns to MGH any and all rights to bill, collect and receive compensation on account of the Outpatient Diagnostic Services and shall not bill or seek to collect any compensation from any party other than MGH on account of the Outpatient Diagnostic Services. MHD shall remit to MGH any sums received from parties other than MGH on account of the Outpatient Diagnostic Services.

4. Operating Covenants. In the performance of the Outpatient Diagnostic Services, MGH and MHD shall comply with all of the following:

(a) Operation of Marin Outpatient MRI. MHD shall operate the Marin Outpatient MRI and shall enter into such leases or other legal arrangements as are required to arrange for the occupancy and use of such premises by the Marin Outpatient MRI. MHD shall provide or arrange for the availability and use of all equipment, furniture and supplies required for the performance of the Outpatient Diagnostic Services. Except as may be otherwise agreed in writing by MHD and MGH, MHD shall provide all staffing required for the operation of the Marin Outpatient MRI, including without limitation the services of an Administrator. MHD may provide for staffing or other services through subcontractors of staff or services.

(b) Physician Supervision. All Outpatient Diagnostic Services shall be performed with the appropriate level of physician supervision required for payment for those services pursuant to the Medicare Program.

(c) Registration of Patients. All Marin Outpatient MRI Patients shall be registered at the Marin Outpatient MRI as patients of the Hospital prior to receiving such services.

(d) Notices and Forms. All Marin Outpatient MRI Patients shall receive the same notices and sign the same forms as are used for other patients receiving outpatient services in the Hospital's outpatient departments.

(e) Ordering Physicians. MHD shall provide Outpatient Diagnostic Services only subject to and in accordance with orders given by a physician who is on the Medical Staff of the Hospital and that are within the scope of privileges of that ordering physician.

(f) Professional Responsibility. The Hospital shall have professional responsibility for all Outpatient Diagnostic Services performed at the Marin Outpatient MRI, and shall subject all those services to monitoring under the programs by which the Hospital monitors the quality of care provided in the Hospital's outpatient departments.

(g) Periodic Visits. Appropriate Hospital personnel shall make periodic visits to the Marin Outpatient MRI and review with the Administrator and other appropriate Marin Outpatient MRI personnel to ensure the Marin Outpatient MRI's compliance with the Hospital's quality standards.

(h) Medical Records. Medical records of Outpatient Diagnostic Services performed at the Marin Outpatient MRI shall be created and maintained in a manner that is consistent with the Hospital's policies and procedures, as well as applicable standards of the Joint Commission, and copies of those medical records shall be transmitted to the Hospital within the same time frames that apply to the records of services provided in the Hospital's outpatient departments.

(i) Incident Reports. MHD shall provide to the Hospital incident reports in a timely manner in accordance with the Hospital's standards for incident reports applicable to the Hospital's inpatient departments.

(j) Utilization and Other Review. MHD shall perform utilization review and other relevant review of the Outpatient Diagnostic Services on the same terms that apply to services provided in the Hospital's outpatient departments.

(k) Advice by Clinical Leaders and Medical Staff. Hospital clinical leaders and officers of the Hospital's Medical Staff shall have the opportunity to provide advice to MHD regarding the performance of Outpatient Diagnostic Services.

(l) Monitoring of Performance. Appropriate officers of the Hospital designated by MGH from time to time shall monitor the performance of Outpatient Diagnostic Services for compliance with the terms and conditions of this Agreement, and all other applicable standards.

(m) MHD's Approval. The Parties acknowledge and agree that any MHD approvals or direction for any matter hereunder or other MHD actions or approvals needed in the course of any services provided to MHD by MGH hereunder, including, without limitation, pursuant to the Employee Leasing Addendum, must be obtained after review and approval by the following: (a) MHD's COO (reviews for compliance and for recommendation to the CFO and CEO); (b) MHD's CFO (reviews for compliance and for recommendation to the COO and CEO); (c) MHD's CEO (upon reviews and recommendations from the COO and CFO); and (d) MHD's Board of Directors (where Board level approval is required, upon the recommendation of the CEO).

(n) Accreditation. MHD will pursue industry accreditations or other appropriate recognitions for the Outpatient Diagnostic Services, unless the parties determine that such should be sought on behalf of or by MGH.

5. Term of Agreement/Effect of Termination. This Agreement shall be effective as of the Effective Date and shall remain in force and effect for a period of one (1) year unless terminated pursuant to this Section 5 (Term of Agreement/Effect of Termination). This Agreement shall automatically renew for additional one (1) year terms unless either party gives written notice of its intent not to renew the Agreement no less than ninety (90) days prior to the renewal date. This Agreement shall terminate immediately upon the effectiveness of any order, law, rule or regulation that provides that, or has an effect such that, MHD may not lawfully provide the Outpatient Diagnostic Services or MGH may not bill and collect for such services in accordance with 42 C.F.R. § 410.28 or any applicable successor law, rule or regulation. Notwithstanding any of the foregoing, either MHD or MGH may terminate this Agreement immediately upon the other party's material breach of or default under this Agreement which is not cured within thirty (30) days following written notice of that breach or default (and termination of this Agreement shall be MGH's sole remedy for any breach of this Agreement by MHD). Either party may terminate this Agreement without cause after 120 days written notice to the other. This Agreement shall terminate immediately upon the effectiveness of any written agreement of MGH and MHD to effect such a termination.

6. Indemnification.

(a) Indemnification by MGH. MGH shall defend, indemnify and hold the MHD Indemnified Persons free and harmless from and against any and all Claims arising out of, related to, or in connection with this Agreement and/or the services provided hereunder,

including, without limitation, any Claim or matter arising out of the Employee Leasing Addendum, regardless of the extent to which the negligent or intentional acts or omissions of MHD, or any of its directors, officers, employees, agents, counsel, and representatives, caused or contributed to the Claims. MGH's indemnity obligations hereunder shall include, but not be limited to, attorney's fees, experts, consultants and court costs.

(b) Notwithstanding any of the foregoing, MGH shall have no obligation hereunder to indemnify or defend MHD solely with respect to the proportion of any Claim that a court determines is directly attributable to specific direction from the MHD Board of Directors that unreasonably rejects the recommendations of MGH staff providing management services to the MHD hereunder. The MHD Board of Directors shall be deemed to have reasonably rejected the recommendations of MGH staff providing management services to the MHD if the Board relied on the information, opinion, reports or statements of counsel, independent accountants or other persons as to matters which the Board believes to be within such person(s)' professional or expert competence. The absence of the Board's reliance on such persons shall not create any presumption that the Board unreasonably rejected a recommendation of MGH staff. MGH's indemnity obligations hereunder shall include, but not be limited to, attorney's fees, experts, consultants and court costs.

(c) Claims and Liabilities in Excess of Insurance. The terms and conditions of Section 6(a) (Indemnification by MGH) shall apply only to claims and liabilities that are not covered by or that exceed the policy limits of applicable insurance coverage. This Section 6 (Indemnification) shall not apply if and to the extent that the effect of such provision would be to negate insurance coverage that would otherwise be available but for these contractual indemnity provisions. Nothing contained in this Section 6 (Indemnification) is intended or should be construed to: (i) create any liability to or right of recovery or subrogation on the part of any insurance carrier or any other third party against either of the parties; or (ii) affect the allocation of responsibilities among insurance carriers or other persons who may have responsibility for satisfaction of all or any part of any claim made against either party. Notwithstanding the foregoing, MGH's indemnity obligations hereunder shall include the costs of any increases in the premiums, deductibles and/or self-insured retentions with respect to MHD's insurance that result from MHD's insurance covering Claims that would otherwise have fallen within MGH's indemnity obligations hereunder.

(d) Defense. Except as otherwise required by the terms of an applicable insurance policy under which defense is provided, the selection of legal counsel to defend any claim or legal action against MHD or MGH (or any person or party for whom either or both are required to provide a defense), shall be determined by written agreement of MHD and MGH. If the parties are unable to reach timely agreement, then the responsible insurance carrier(s) shall be authorized to make such selection. If there is no insurer's duty to defend, and the parties are unable to reach agreement, then MHD's Board of Directors shall select such counsel.

(e) Settlement. Except as otherwise provided in the applicable insurance policy(ies), prejudgment settlement proposals involving both MGH and MHD and relating to services under this Agreement shall require the written agreement of both MGH and MHD. Notwithstanding the foregoing, either party may unilaterally accept that portion of the proposal which relates to its liability in circumstances where the refusal to accept such proposal presents,

in such party's reasonable business judgment, a material risk that it will be exposed to liability in excess of applicable insurance coverage, and it has retained independent counsel to review the claim and settlement offer and advise it regarding the issues and risks relating thereto.

7. Miscellaneous.

(a) Notices. Any notices required or desired to be sent pursuant to this Agreement shall be made in writing and addressed to the party and address provided to the other party for purposes of notice.

(b) Applicable Law/Attorney's Fees. This Agreement is governed by California law. If any action is commenced to enforce or interpret any term or condition of this Agreement, in addition to costs and any other relief, the prevailing party shall be entitled to reasonable attorney's fees. Jurisdiction and venue in the event of any legal action shall be in Marin County, California.

(c) Entire Agreement. Except as expressly provided herein, this Agreement contains the entire agreement of the parties hereto with respect to the matters contained herein.

(d) Assignment. No Party to this Agreement may assign this Agreement or such Party's rights and obligations hereunder without the prior written consent of the other Parties, which consent the other Parties may withhold or condition in their sole discretion, and any assignment without such written consent shall be void and ineffective.

(e) Time of Essence. Time is of the essence for this Agreement.

(f) Recitals. All of the Recitals are incorporated into this Agreement and constitute a part hereof.

(g) Representation by Counsel. MGH and MHD agree that, in connection with this Agreement and the matters contemplated hereby, each has either been represented by legal counsel of that party's own choice and/or has elected not to be represented by separate legal counsel in such matter.

(h) Counterparts. This Agreement may be executed in counterparts and by facsimile signatures, which will be effective as if original signatures. Each person signing this Agreement on behalf of a Party represents and warrants that he or she has the necessary authority to bind such Party and that this Agreement is binding on and enforceable against such Party.

**[LEFT BLANK INTENTIONALLY]**



IN WITNESS WHEREOF, the Parties have executed this Agreement effective as of the date first set forth above.

MARIN HEALTHCARE DISTRICT

MARIN GENERAL HOSPITAL

By: \_\_\_\_\_  
Jennifer Hershon, RN, MSN  
Secretary, Board of Directors

By: \_\_\_\_\_  
Andrea Schultz  
Secretary, Board of Directors

## EMPLOYEE LEASING ADDENDUM

### TO OUTPATIENT DIAGNOSTIC SERVICES AGREEMENT

This Addendum, when executed by the Parties, shall be incorporated into and become part of that certain Outpatient Diagnostic Services Agreement, effective as of July 1, 2018, by and between MHD and MGH. Unless defined in this Addendum, all capitalized terms shall have the meaning set forth in the body of the Agreement.

1. Leasing of Employees. MGH hereby agrees to provide to MHD all necessary personnel in order to fully staff the positions listed on the attached Exhibit A for MHD's Marin Outpatient MRI services. Such personnel shall perform on MHD's behalf all of the job requirements of such positions during the Marin Outpatient MRI operating hours. MHD shall outline the job requirements of the positions to be filled and to keep MGH informed of subsequent personnel needs or changes.

2. Leasing Fee. As compensation for MGH providing of such personnel, MHD shall offset against the compensation owed by MGH to MHD under Section 3 of this Agreement all of the following costs incurred by MGH with respect to the personnel supplied to MHD hereunder: (a) wages and salary; (b) payroll taxes; (c) fringe benefits, including all reasonable fringe benefits which are or may become standard for MGH personnel (such as health insurance, disability insurance, life insurance, retirement plans, seminar and related travel expenses and professional dues); (d) if applicable, all expenses associated with relocating personnel to the Marin County, California area (including, but not limited to, the cost of house hunting trips, transporting household belongings, transportation, and temporary lodging for the personnel and their families, and reimbursement related to the sale of a residence and the replacement thereof normally afforded MGH personnel; and (e) all interim living expenses, including lodging, food, transportation and other out-of-pocket expenses for interim personnel.

3. Supervision of Personnel. MHD retains the right to exercise direction and control over all personnel in the performance of their services for MHD. Such control includes the right to reassign or request MGH to terminate or provide additional personnel. MGH and MHD shall agree on an established schedule for holidays, vacations and sick leave policies for the personnel. MHD shall be responsible for maintaining written records of hours worked by all salaried and hourly personnel, including regular and overtime hours.

4. Payroll Taxes. MGH acknowledges that it is responsible for payment of all payroll taxes for its employees and agrees to furnish proof of such payments to MHD upon written request.

5. Employee Review. MGH shall periodically, but not less than annually, review and evaluate the performance of all personnel leased to MHD. Moreover, MHD shall provide to MGH its own review and evaluation of the performance of all personnel.

6. Conduct of MHD and MGH. MHD and MGH covenant and agree to obey all federal, state and local statutes regarding treatment of employees in a business situation. While the parties hereto recognize and affirm that the employees leased to MHD are the employees of

MGH, each of MHD and MGH covenants and agrees not to conduct itself in any manner such as to make either of them liable for, or subject to any racial or sexual discrimination charges, wage and hour violations or any such other offenses for which it may be liable for damages or fines, or subject to criminal prosecution, without such party's knowledge or consent.

IN WITNESS WHEREOF, the Parties have executed this Addendum effective as of the date first set forth above.

MARIN HEALTHCARE DISTRICT

MARIN GENERAL HOSPITAL

By: \_\_\_\_\_  
Jennifer Hershon, RN, MSN  
Secretary, Board of Directors

By: \_\_\_\_\_  
Andrea Schultz  
Secretary, Board of Directors

**EXHIBIT A TO EMPLOYEE LEASING ADDENDUM**

- 1) MRI Technologists
- 2) Radiology Technical Associates