Report of Independent Auditors
and Financial Statements

Marin Healthcare District

December 31, 2018 and 2017

MOSSADAMS

Table of Contents

Management's Discussion and Analysis

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 years ended December 31, 2018 and 2017. 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 noncapital 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 Marin General Hospital (MGH) and is governed by a publicly-elected Board of Directors.

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, 2018	DECEMBER 31, 2017	DECEMBER 31, 2016
Current and other assets	$ 189,772,393	$ 286,030,967	$ 106,970,585
Capital assets, net of accumulated depreciation	313,704,244	191,722,405	98,097,972
Total assets	$ 503,476,637	$ 477,753,372	$ 205,068,557
Current portion of bond payable	$ 6,645,000	$ 6,050,000	$ 2,645,000
Other current liabilities	55,846,433	34,393,091	12,508,667
Bond payable, net of current portion	392,557,917	400,179,342	163,093,475
Long-term debt and other long-term liabilities	9,333	39,635	1,053,996
Total liabilities	455,058,683	440,662,068	179,301,138
Net position			
Net investment in capital assets	45,371,757	32,754,311	22,760,557
Unrestricted	3,046,197	4,336,993	3,006,862
Total net position	48,417,954	37,091,304	25,767,419
Total liabilities and net position	$ 503,476,637	$ 477,753,372	$ 205,068,557

Total assets increased by 5% or $25,723,265 as of December 31, 2018, compared to December 31, 2017, primarily as a result of expenditures for construction costs related to the hospital facility. 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 3% or $14,396,615 as of December 31, 2018, compared to December 31, 2017, as a result of the payment on the bonds and 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 position is an increase of $11,326,650, resulting in a December 31, 2018, balance of $48,417,954. An unrestricted net position of $18,493,161 exists for the year ended December 31, 2018, as a result of the timing of construction payments.

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

	2018	2017	2016
Operating revenues	$ 25,521,423	$ 23,073,923	$ 20,193,105
Operating expenses	42,188,820	35,648,816	28,835,201
Operating loss	(16,667,397)	(12,574,893)	(8,642,096)
Support from Marin General Hospital (MGH)	15,412,259	11,401,720	8,072,571
Bond issuance costs	(1,884)	(583,641)	(15,597)
Tax revenue	12,574,707	13,012,474	562,573
Interest expense	(339)	(652)	(11,440)
Other revenue	9,304	68,877	20,145
Total nonoperating revenues, net	27,994,047	23,898,778	8,628,252
Increase (decrease) in net position	$ 11,326,650	$ 11,323,885	$ (13,844)

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.

Nonoperating 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 continue to be used for the construction of the new hospital facility.

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, 2018 is presented below.

	DECEMBER 31, 2018	
	Actual	Budget
Operating revenues	$ 25,521,423	$ 26,533,171
Operating expenses	42,188,820	41,077,933
Operating loss	(16,667,397)	(14,544,762)
Support from Marin General Hospital (MGH)	15,412,259	12,876,590
Bond issuance costs	(1,884)	-
Tax revenue	12,574,707	13,155,000
Interest expense	(339)	(716)
Other revenue	9,304	3,000
Nonoperating revenues	27,994,047	26,033,874
Change in net position	$ 11,326,650	$ 11,489,112

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 $1,004,075 in deficit of budget and District operating revenues were $7,673 in deficit 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 $1,531,973 in excess of budget and District operating expenses were $421,086 under 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.

CAPITAL ASSETS

As of December 31, 2018, the District had $313,704,244 invested in a variety of capital assets, as reflected in the following schedule, which represent a net increase (additions less depreciation) of $121,981,839 from December 31, 2017. The increases in year ended December 31, 2018 is the result of the construction of the new hospital facility.

	Balance at	
	December 31, 2018	December 31, 2017
Land and improvements	$ 2,498,287	$ 2,498,287
Construction in progress	284,914,222	161,419,900
Building	51,695,531	51,695,531
Equipment	21,138,561	21,138,561
Less accumulated depreciation	(46,542,357)	(45,029,874)
Capital assets, net of accumulated depreciation	$ 313,704,244	$ 191,722,405

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

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, 2018 and 2017, 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, 2018 and 2017, 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.

Moss Adams LLP

Sacramento, California
April 23, 2019

Financial Statements

Marin Healthcare District
Statements of Net Position
December 31, 2018 and 2017

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,080,937	$ 2,651,515
Investments	1,058,745	1,063,851
Current portion of bond assets held in trust	19,482,872	20,377,616
Patient accounts receivable, net of allowance for doubtful accounts of $150,397 and $299,328 as of December 31, 2018 and 2017, respectively	4,426,206	3,279,764
Tax revenue receivable	5,184,260	5,296,212
Other receivables	1,080,559	649,111
Prepaid expenses	253,792	224,782
Inventory	15,692	15,692
Total current assets	33,583,063	33,558,543
Deposits	69,633	72,633
Capital assets, net of accumulated depreciation	313,704,244	191,722,405
Bond assets held in trust	155,661,870	251,884,724
Intangible assets, net of accumulated amortization	457,827	515,067
Total assets	$ 503,476,637	$ 477,753,372
LIABILITIES		
Current liabilities		
Accounts payable	$ 842,302	$ 2,331,285
Accrued expenses	3,217,913	877,094
Accrued construction costs	44,274,312	25,001,092
Accrued interest expense	6,481,604	5,149,259
Current portion of notes payable	1,030,302	1,034,361
Current portion of bonds payable	6,645,000	6,050,000
Total current liabilities	62,491,433	40,443,091
Notes payable, net of current portion	9,333	39,635
Bonds payable, net of current portion	392,557,917	400,179,342
Total liabilities	455,058,683	440,662,068
NET POSITION		
Net investment in capital assets	45,371,757	32,754,311
Unrestricted	3,046,197	4,336,993
Total net position	48,417,954	37,091,304
Total liabilities and net position	$ 503,476,637	$ 477,753,372

See accompanying notes.

	2018	2017
OPERATING REVENUE		
Net patient service revenue	$ 25,000,202	$ 22,563,423
Lease income	521,221	510,500
Total operating revenues	25,521,423	23,073,923
OPERATING EXPENSES		
Salaries and benefits	31,743,335	26,095,604
Rent	3,009,900	2,392,671
Purchased services	3,016,434	3,069,331
Depreciation and amortization	1,569,723	1,496,208
Supplies	1,462,553	1,433,281
Insurance	158,806	158,577
Other	1,228,069	1,003,144
Total operating expenses	42,188,820	35,648,816
OPERATING LOSS	(16,667,397)	(12,574,893)
NONOPERATING REVENUES (EXPENSES)		
Support from Marin General Hospital (MGH)	15,412,259	11,401,720
Bond issuance costs	(1,884)	(583,641)
Tax revenue	12,574,707	13,012,474
Interest expense	(339)	(652)
Other revenue	9,304	68,877
Total non-operating revenues, net	27,994,047	23,898,778
INCREASE IN NET POSITION	11,326,650	11,323,885
NET POSITION, beginning of year	37,091,304	25,767,419
NET POSITION, end of year	$ 48,417,954	$ 37,091,304

Marin Healthcare District
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tenants	$ 521,221	$ 510,500
Receipts from patients	23,853,760	21,582,325
Payments to employees and physicians	(31,575,833)	(25,893,508)
Payments to suppliers and others	(8,217,438)	(7,278,582)
Net cash used in operating activities	(15,418,290)	(11,079,265)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from MGH for operations	14,954,811	12,021,338
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of bonds	-	243,612,033
Purchases of capital assets	(93,991,484)	(68,376,129)
Principal payments on bonds payable	(6,050,000)	(2,645,000)
Tax revenue related to general obligation bonds	12,686,659	9,492,655
Bond issuance costs	(1,884)	(583,641)
Payment of notes payable to physicians	(8,361)	(8,048)
Proceeds from MGH loan for physician	-	30,000
Interest payments on bonds payable	(14,327,616)	(6,589,350)
Interest payments on notes payable	(339)	(652)
Net cash provided by (used in) capital and related financing activities	(101,693,025)	174,931,868
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of bond assets held in trust	(529,951,527)	(976,533,731)
Proceeds from sales and maturities of bond assets held in trust	631,523,043	801,503,151
Interest income, net of amounts capitalized	14,410	16,190
Net cash provided by (used in) investing activities	101,585,926	(175,014,390)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(570,578)	859,551
CASH AND CASH EQUIVALENTS, beginning of year	2,651,515	1,791,964
CASH AND CASH EQUIVALENTS, end of year	$ 2,080,937	$ 2,651,515

See accompanying notes.

	2018	2017
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Operating loss	$ (16,667,397)	$ (12,574,893)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	1,569,723	1,496,208
Provision for bad debts	68,159	72,708
Changes in certain assets and liabilities:		
Patient accounts receivable	(1,214,601)	(1,053,806)
Prepaid expenses	(29,010)	(173,530)
Deposits	3,000	1,000,000
Accounts payable	(1,488,983)	(144,628)
Accrued expenses	2,340,819	298,676
	$ (15,418,290)	$ (11,079,265)
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION		
Loan forgiveness from MGH	$ (26,000)	$ (582,667)

See accompanying notes.

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 was one new Clinic added and one closed in 2018. As of December 31, 2018 and 2017, there were thirteen Clinics operating.

Proprietary fund accounting – The activities of the District are accounted for as an Enterprise Fund. Enterprise Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under the method, revenues are recorded when earned and expenses are recorded at the time obligations are incurred. 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. Nonoperating revenues, such as subsidies, property tax revenue, and investment earnings, result from nonexchange 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.

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 gains and losses, unrealized gains and losses, and interest are included in the statements of revenue, expenses, and changes in net position as other revenue. Interest of $0 and $35,362, and realized and unrealized losses of $5,106 and realized and unrealized gains of $52,687 for the years ended December 31, 2018 and 2017, 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 of $4,453,918 and $348,986 offset capitalized interest which is included in capital assets on the statement of net position as of December 31, 2018 and 2017, respectively.

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, 2018 and 2017.

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, 2018 and 2017.

Notes 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.

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 $68,159 and $72,708 for the years ended December 31, 2018 and 2017, respectively.

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

	2018	2017
Medicare	37%	35%
Medi-Cal	14%	11%
Commercial	30%	29%
Self-pay	10%	16%
Other	9%	9%
	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, 2018 and 2017, the District provided foregone charges of approximately $17,687 and $14,644, 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 nonoperating revenues and expenses. Operating revenues result from leasing the Hospital Facility to MGH and providing health care services to patients at the Clinics. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred in order to lease the Hospital Facility and to provide health care services, other than financing costs.

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 nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating 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.

Reclassifications – Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation. These reclassifications had no effect on the reported net position.

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:

	2018	2017
Cash in bank	$ 1,768,995	$ 2,345,717
State of California's Local Agency Investment Fund (LAIF)	311,942	305,798
Cash and cash equivalents	2,080,937	2,651,515
Investments		
Mutual funds	1,058,745	1,063,851
Bond assets held in trust		
Cash	-	2,929,024
Money market funds	41,190,510	28,668,685
U.S. Treasury obligations	82,164,696	53,330,659
Government agency securities	51,789,536	187,333,972
	175,144,742	272,262,340
Total	$ 178,284,424	$ 275,977,706

Cash balances from all funds are combined and invested, to the extent possible, pursuant to the District Board's 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, 2018 and 2017, the estimated market value of the pool (including accrued interest) was $28,502,802 and $28,038,411, respectively. The District's proportionate share of that value is $311,942 and $305,798 as of December 31, 2018 and 2017, 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, U.S. Treasury obligations, 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, 2018, 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.

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, 2018, 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.

The following tables present information about the District's assets measured at fair value on a recurring basis as of December 31, 2018 and 2017:

	Fair Value at Reporting Date Using			
2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Money market funds	$ 41,190,510	$ -	$ -	$ 41,190,510
U.S. treasury obligations	82,164,696	-	-	82,164,696
Mutual funds				
Asset backed securities	159,183	-	-	159,183
Global debt	319,530	-	-	319,530
Govt/Corp intermediate	470,606	-	-	470,606
Other mutual funds	109,426	-	-	109,426
	1,058,745	-	-	1,058,745
Government agency securities				
Sovereign related finance	-	51,789,536	-	51,789,536
Total	$ 124,413,951	$ 51,789,536	$ -	$ 176,203,487

2017	Fair Value at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
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
	1,063,851	-	-	1,063,851
Government agency securities				
Sovereign related finance	-	187,333,972	-	187,333,972
Total	$ 85,992,219	$ 187,333,972	$ -	$ 273,326,191

During 2018 and 2017, there was no activity in Level 3 investments.

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, 2018 and 2017, follows:

2018	Fair Value	Investment maturities (in years): Less than 1	1 to 5	More than 5
Money market funds	$ 41,190,510	$ 41,190,510	$ -	$ -
U.S. treasury obligations	82,164,696	82,164,696	-	-
Government agency securities	51,789,536	51,789,536	-	-
	$ 175,144,742	$ 175,144,742	$ -	$ -
Mutual funds	1,058,745			
	$ 176,203,487			

2017	Fair Value	Investment maturities (in years): Less than 1	1 to 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	-	-
	$ 272,262,340	$ 272,262,340	$ -	$ -
Mutual funds	1,063,851			
	$ 273,326,191			

NOTE 4 – CAPITAL ASSETS

The following is a summary of changes in capital assets during the years ended December 31, 2018 and 2017:

	Life (Years)	Balance December 31, 2017	Additions	Deletions	Transfers	Balance December 31, 2018
Nondepreciable						
Land	N/A	$ 865,701	$ -	$ -	$ -	$ 865,701
Construction in progress	N/A	161,419,900	123,494,322	-	-	284,914,222
Total nondepreciable		162,285,601	123,494,322	-	-	285,779,923
Depreciable						
Equipment	3 to 20	18,784,416	-	-	-	18,784,416
Hospital buildings	40	51,590,582	-	-	-	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 to 20	2,354,145	-	-	-	2,354,145
Total depreciable		74,466,678	-	-	-	74,466,678
Accumulated depreciation						
Hospital buildings	N/A	(22,511,886)	(1,415,652)	-	-	(23,927,538)
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	(1,105,758)	(21,278)	-	-	(1,127,036)
Minor equipment	N/A	(16,812)	(12,613)	-	-	(29,425)
1206B Clinic equipment	N/A	(1,197,168)	(62,940)	-	-	(1,260,108)
1206B leasehold improvements	N/A	(35,939)	-	-	-	(35,939)
Total accumulated depreciation		(45,029,874)	(1,512,483)	-	-	(46,542,357)
Total depreciable, net		29,436,804	(1,512,483)	-	-	27,924,321
Total capital assets, net		$ 191,722,405	$ 121,981,839	$ -	$ -	$ 313,704,244

	Life (Years)	Balance December 31, 2016	Additions	Deletions	Transfers	Balance December 31, 2017
Nondepreciable						
Land	N/A	$ 865,701	$ -	$ -	$ -	$ 865,701
Construction in progress	N/A	68,351,311	94,943,385	-	(1,874,796)	161,419,900
Total nondepreciable		69,217,012	94,943,385	-	(1,874,796)	162,285,601
Depreciable						
Equipment	3 to 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 to 20	2,234,129	120,016	-	-	2,354,145
Total depreciable		72,471,866	120,016	-	1,874,796	74,466,678
Accumulated depreciation						
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)
Total accumulated depreciation		(43,590,906)	(1,438,968)	-	-	(45,029,874)
Total depreciable, net		28,880,960	(1,318,952)	-	1,874,796	29,436,804
Total capital assets, net		$ 98,097,972	$ 93,624,433	$ -	$ -	$ 191,722,405

Construction and other capital commitments – As of December 31, 2018 and 2017, the District spent $180,651,157 and $132,327,382, respectively, related to various construction and other capital projects in progress. The District estimates an additional $106,494,606 will be required in 2019 for ongoing projects. As of December 31, 2018 and 2017, the District has outstanding commitments with contractors for approximately $44,274,312 and $25,001,092 related to these projects, respectively.

NOTE 5 – INTANGIBLE ASSETS

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. The District acquired intangible assets as part of the acquisition of assets from CAMSF.

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

	Life (Years)		Balance December 31, 2017		Additions		Deletions		Balance December 31, 2018
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			(343,437)		(57,240)		-		(400,677)
Intangibles, net of accumulated amortization		$	515,067	$	(57,240)	$	-	$	457,827

	Life (Years)		Balance December 31, 2016		Additions		Deletions		Balance 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		$	572,307	$	(57,240)	$	-	$	515,067

NOTE 6 – LEASE OF MARIN HEALTHCARE DISTRICT FACILITY

Annual rental payments – Effective December 1, 1985, the District leased the MGH facility to MGH for a term of 30 years pursuant to Section 32126 of the Local Hospital District Law. The lease matured on December 1, 2015, and a new lease commenced on December 2, 2015.

In August 2014, a new lease was executed, effective December 2, 2015. The District leased the MGH facility to MGH for a term of 30 years. The base rent is $500,000 annually, plus an annual Consumer Price Index (CPI) increase. Additional rent is conditional on MGH achieving certain financial benchmarks. The total rent received for the years ended December 31, 2018 and 2017, was $521,221 and $510,500, respectively.

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

Years Ending December 31,		
2019	$	500,000
2020		500,000
2021		500,000
2022		500,000
2023		500,000
Thereafter		10,958,333
	$	13,458,333

NOTE 7– NOTES PAYABLE AND ACQUISITION

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.

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 current as of December 31, 2018 and 2017.

The activity for notes payable for the year ended December 31, 2018 and 2017, is as follows:

	Balance December 31, 2017	Additions	Deletions	Balance December 31, 2018	Due Within One Year
Note payable to MGH	$ 1,061,333	$ -	$ (26,000)	$ 1,035,333	$ 1,026,000
Note payable to Olympus	12,663	-	(8,361)	4,302	4,302
	$ 1,073,996	$ -	$ (34,361)	$ 1,039,635	$ 1,030,302

	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	$ 1,026,000
Note payable to Olympus	20,711	-	(8,048)	12,663	8,361
	$ 1,278,044	$ 30,000	$ (234,048)	$ 1,073,996	$ 1,034,361

Debt service requirements for notes payable are as follows:

Years ending December 31,	Principal	Interest
2019	$ 1,030,302	$ -
2020	9,333	-
	$ 1,039,635	$ -

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 of 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 $14,683,536 and $8,519,891 for the years ended December 31, 2018 and 2017, respectively. In accordance with GASB 62, the District capitalized $10,229,618 and $8,170,905 in interest for the years ended December 31, 2018 and 2017, respectively, due to the ongoing construction; offset by $4,453,918 and $348,986 of investment gains for the years ended December 31, 2018 and 2017, respectively.

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.

The activity for bonds payable for the year ended December 31, 2018 and 2017, is as follows:

	Outstanding December 31, 2017	Issued	Matured / Redeemed During Year	Outstanding December 31, 2018	Due Within One Year
General obligation bonds					
Series 2015 bonds	$ 154,740,000	$ -	$ -	$ 154,740,000	$ -
Series 2017 bonds	224,000,000	-	(6,050,000)	217,950,000	6,645,000
Plus					
Series 2015 premium	8,056,902	-	(296,573)	7,760,329	-
Series 2017 premium	19,432,440	-	(679,852)	18,752,588	-
Total	$ 406,229,342	$ -	$ (7,026,425)	$ 399,202,917	$ 6,645,000

	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	$ 165,738,475	$ 243,612,033	$ (3,121,166)	$ 406,229,342	$ 6,050,000

A summary of debt service requirements for the next five years and to maturity as of December 31, 2018 is as follows:

Years Ending December 31,	Principal	Interest
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	955,000	15,255,100
2024 – 2028	11,890,000	75,357,950
2029 – 2033	34,750,000	70,720,700
2034 – 2038	68,295,000	60,025,700
2039 – 2043	113,965,000	42,164,250
2044 – 2047	134,890,000	14,039,600
Total	$ 372,690,000	$ 338,970,950

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.

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 $15,412,259 and $11,401,720 to the District for the operation of the Clinics during the years ended December 31, 2018 and 2017, respectively. Additionally, the lease agreement also requires MGH to reimburse a portion of the District's administrative, rent, and nonclinic expenses.

The District has a receivable of $823,665 and $359,809 due from MGH, as of December 31, 2018 and 2017, respectively, included in the statements of net position.

NOTE 11 – OPERATING LEASES

The District leases office facilities under a noncancelable operating lease. The total cost for the leases were $2,793,198 and $2,236,520 for the years ended December 31, 2018 and 2017, respectively. The future minimum lease payments were as follows:

Years Ending December 31,	
2019	$ 2,838,098
2020	2,836,660
2021	2,697,362
2022	2,360,733
2023	2,337,551
2024 - 2028	7,703,375
	$ 20,773,780

NOTE 12 – PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on approximately October 1 based upon assessed property values as of January 1 of the preceding year. Assessed values are established by the county assessor at 100% of fair market value. Taxes are due in two equal installments on December 10 and April 10. Collections are distributed as collected to the District by the county treasurer.

The District is permitted by law to levy up to 1% of assessed property values for general district purposes. The District may also levy taxes at a lower rate. Further amounts of tax need to be authorized by the vote of the people.

For 2018 and 2017, the District did not have a regular tax levy. There is a voter-approved tax levy for service of the general obligation bonds. For 2018 and 2017, the tax levy for bond service was $12,574,707 and $13,012,474, respectively.

Property taxes are recorded as receivables when levied. Because state law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

MOSSADAMS