



## Marin Healthcare District

100B Drakes Landing Road, Suite 250, Greenbrae, CA 94904

Telephone: 415-464-2090 Fax: 415-464-2094

Website: [www.marinhealthcare.org](http://www.marinhealthcare.org) / Email: [info@marinhealthcare.org](mailto:info@marinhealthcare.org)

### FINANCE AND AUDIT COMMITTEE

#### Closed Session & Regular Meeting

July 25, 2017, 5:30pm

#### Members:

##### **Chair:**

Larry Bedard, MD

##### **Members:**

Jennifer Hershon, RN, MSN

##### **Staff:**

James McManus, CFO

Jean Noonan, Controller

Michael Lighthawk, Executive Assistant

#### Location:

MHD Conference Room at Drakes Landing

100B Drakes Landing Road, Suite 250

Greenbrae, CA 94904

### **CLOSED SESSION AGENDA**

**5:30pm**

- I. **Call to Order** Bedard
  - A. Roll Call
  - B. Review and approval of agenda
  - C. Review and approval of Previous Closed Session Minutes of May 30, 2017
- II. **Trade Secrets** – Discussion involving trade secrets pursuant to H&S Code Section 32106, concerning new District/Hospital Programs, Services, Facilities and Strategic Planning.
- III. **Adjourn Closed Meeting** Bedard

### **REGULAR MEETING AGENDA**

**5:45pm**

- I. **Call to Order** Bedard
  - A. Roll Call
  - B. Approval of Agenda (Action)
  - C. Approval of Minutes of Regular Meeting: May 30, 2017 (Action)
  - D. General Public Comment - *Any member of the public audience may make statements regarding any items NOT on the agenda. Statements are limited to a maximum of three (3) minutes. Please state your name if you wish to be recorded in the minutes.*
- II. **Review / Recommend Approval of Items Discussed in Closed Session (Action)**
- III. **Finance** McManus
  - A. Financial Report – June 30, 2017
  - B. G.O. Bond Financing Plan
- IV. **Agenda Items for Next Meeting** Bedard
- V. **Adjournment** Bedard



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### FINANCE AND AUDIT COMMITTEE

Closed Session & Regular Meeting

May 30, 2017, 5:30pm

#### Committee Member Attendance:

Larry Bedard, MD (Chair)

Jennifer Hershon, RN, MSN

#### Staff Attendance:

Lee Domanico, CEO

Jim McManus, CFO

Jean Noonan, Controller

Mary Friedman, Director

Michael Lighthawk, EA

#### Regular Meeting Minutes

- I. **Call to Order** - Chair Bedard called the regular meeting of the Finance & Audit Committee to order at 5:40pm
  - A. Roll Call – Chair Bedard and Member Hershon present.
  - B. Approval of Agenda – **Agenda approved** with one correction: Change Agenda Item 5 to: MGH Investment Committee Update.
  - C. Approval of Minutes of Regular Meeting: April 25, 2017. **Minutes approved.**
  - D. Approval of Closed Session Minutes of April 25, 2017. **Minutes approved.**
  - E. General Public Comment - *Any member of the public audience may make statements regarding any items NOT on the agenda. Statements are limited to a maximum of three (3) minutes. Please state your name if you wish to be recorded in the minutes.*  
**No public.**

#### II. **Review / Recommend Approval of Items Discussed in Closed Session**

- A. **Motion:** To recommend approval by the MHD Board of Directors for the lease of office space and services from Dr. Walter F. D'Costa, DPM, located at 2281 Cleveland Avenue, Santa Rosa, California (for Dr. Laura K. Pak).

Member Hershon so moved. Seconded by Chair Bedard. Vote: All ayes. **Motion passed.**

#### III. **Finance**

- A. Financial Report: April 30, 2017 – Mr. McManus invited Jean Noonan (Controller) to present the April and YTD District Financials.

Balance Sheet (Pg. 9) – Referring to the Balance Sheet, Ms. Noonan pointed out:

- ♦ Cash & Cash equivalents dropped slightly from the previous month due to timing of the cash transfers between the hospital and the district.



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- ♦ Tax Revenue receivables are at zero due to timing of the County Assessed Taxes transfers that clears the receivables.
- ♦ Hospital construction expenses continue to increase; up \$5.6M from March.
- ♦ Under liabilities there has been an increase in accruals due to MGH 2.0 construction costs.

### Income Statement (Pg. 10)

- ♦ Rental Revenue will trend higher as the Consumer Price Index goes up.
- ♦ Investment earnings on the \$1M currently in the District Corporate portfolio have been favorable.
- ♦ Depreciation Expense is trending lower than budgeted because assets are budgeted to be put into service this year within construction costs.

### 1206(b) Clinics (Pg. 11)

The District Clinics in April had a variance of \$466K. Urology had the highest variance at \$266K. However, due to an error earlier in the year, a \$180K correction landed in Urology contributing to the high variance. YTD financials were not affected. Because of the \$180K YTD variance, finance is looking more closely at salaries. This is similar to the work being done looking into the CAM financials. Payment and booked MIPA bonuses to physician compensation may also have affected the financials in April.

Chair Bedard asked if each of the clinics has an onsite manager. Ms. Noonan responded that MMPC is the front line for management of the clinics but there are 3-4 actual managers for all clinics. Jim McManus commented that an internal protocol has been added to the Monthly Financial Close of the clinics where MGH Finance will review all the statements with the respective managers before the financials are produced. Following review, Finance will address any variances based on certain tolerance levels for each clinic and develop a “back-to-budget” plan if needed.

## B. G.O. Bond Financing Plan

Jim McManus provided a report on the current plan for future financing of MGH 2.0. In summary, construction has used \$170M of the \$394M in GO Bonds. We are now poised to issue the remaining \$224M in GO Bonds. The construction schedule (updated monthly) indicates we will run out of bond funds by December of 2017. Starting last week, we have begun planning the new issuance with Hammond Hanlon Camp (Financial Advisors), Dean Orrick (Bond Counsel), and Morgan Stanley with Stifel/Nicholas as underwriters. The intention is to begin the working group and due diligence for bond council to review in order to receive opinions and a rating. We expect



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to go out for pricing at the very end of august and close the issuance in September and project we will receive monies shortly thereafter.

Following the issuance, Jenna Megan, (Counsel with Orrick), will come out to address the District Board of Directors and answer any questions you may have.

Citizens' Bond Oversight Committee – Jean Noonan (Controller) presented an updated version of the same presentation brought to the MHD Citizens' Bond Oversight Committee representing project fund balance and requisitions as of March 31, 2017. As of March, the balance of bond funds maintained at Bank of New York Mellon was \$70,676,897. Concurrently, MHD has requested 35 requisitions totaling \$99.8M from BNY Mellon. Total project cost remains at \$534.8M. As of April 30 \$118.6M in expenses were incurred for MGH 2.0.

C. Physician Transactions & Arrangements Policy (Updated) Pgs. 20-35 (Action)

Jim McManus reviewed his memo to the committee and spoke to the proposed revisions as listed in the memo. Overall, changes to the policy provide needed legal and compliance updates, as well as bring into alignment District and MGH policies to the fullest extent possible in order to promote process efficiencies between the two entities.

A key component of the policy was to make sure that both the COO and the CFO review the transaction before going to the board. This will enable a clear understanding of which board of directors need to have oversight and approval of contracts based on established parameters. Another important area of revision is updating current Fair Market Valuation (FMV) regulations in order to contain physician compensation to 50-75% of valuation.

Other discussions ensued extrapolating out the details within the Discussion section of the memo including:

- ♦ Incentives paid out to physicians including forgivable loans (moving expenses, signing bonus) with an aggregate of \$25K.
- ♦ Keeping physician compensation to the 75<sup>th</sup> percentile unless justification is presented.

**Motion:** To recommend the MHD Board of Directors approve the revised MHD Physician Transactions and Arrangements Policy, as presented to the MHD Finance and Audit Committee.

Member Hershon so moved. Seconded by Chair Bedard. Vote: All ayes. **Motion passed.**



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### IV. 2016 Audited Financials Review

Moss Adams

Referring to his presentation, Mr. Brian Conner summarized the audited financial statements. The auditors have provided an Unmodified Opinion that the 2016 Marin Healthcare District Financial Statements are presented fairly and in accordance with US GAAP.

Asset Composition - Changes from 2015-2016 are due mainly to construction and capital asset activity with the corresponding reduction in bond proceeds held in trust. The difference in Total Assets is the amount of money paid down for bond payments.

Liabilities and Net Position – Three periods are designated because the District changed its fiscal year in 2015 from June 30 to December 31, 2015 in order to match the Hospital's fiscal year. Correspondingly, the Statement of Revenue and Expenses is a single year presentation because the most recent period was a 6 month period.

Patient Service Accounts Receivable – Auditors found that estimates are relatively consistent year to year. AR going down indicates that the estimates were on track.

Gross Receivables Payer Mix – The percentage of payer mix reflects the physician practices of the District only.

Further presentation points and discussions ensued regarding:

- ♦ Required Communications, Responsibilities of the Auditors and ownership of materials.
- ♦ Management Judgments & Accounting Estimates
- ♦ Consistency of Plan Scope and Timing
- ♦ No adjustments were identified; no findings of significant value; no difficulties with management encountered.

The Committee thanked Moss Adams for their expertise, presentation, and diligence. Chair Bedard asked for a motion to recommend acceptance of the 2016 Audit.

**Motion:** To recommend the MHD Board of Directors accept the Report of Independent Auditors and Financial Statements for the Marin Healthcare District of December 31, 2016 and 2015 as presented to the MHD Finance and Audit Committee.

Member Hershon so moved. Seconded by Chair Bedard. Vote: All ayes. **Motion passed.**

### V. MGH Investment Committee Update

Jim McManus provided a verbal update on the District's Corporate Portfolio currently producing a 2.4% return on investment for Q1 2017 vs. a policy index of 0.8%. Since inception (less than a full year) the return is 3.2% vs. a policy index of 0.1%. The District's Bond Proceeds portfolio's return is 0.14% on an index of 0.14%; for one year the return is 0.42% vs. the index of 0.38%.

### VI. Adjournment – Chair Bedard adjourned the meeting at 7:02pm.

# **Marin Healthcare District & 1206(b) Clinics**



**To: MHD Finance Committee**  
**From: Jim McManus, CFO**  
**Re: June 2017 Financial Report**  
**Date: July 14, 2017**

**I. General Comments**

These financial statements contain, in summary format, the balance sheet and net support to the District Clinics. The Clinics, as of June 30, 2017 are comprised of 15 locations and 57 practitioners, and are reported as one combined unit.

**II. FY 2017 Income Statement and Budget**

The Net District Operating Loss for the month was \$89,257 which was favorable to budget by \$39,667. Income included rental revenue from the hospital lease of \$42,542, interest income and net unrealized investment gains of \$3,697. The District incurred total expenses of \$135,496, including depreciation expense of \$111,370 which is lower than budgeted due to additional hospital construction assets expected to be completed within the year. Expenses also included \$16,667 for the Behavioral Health program support.

Clinic losses for the month were \$890,703 (\$154,071 unfavorable to budget) and were reimbursed by MGH.

**III. Balance Sheet**

**Assets**

Cash at June 30, 2017 of \$4,133,619 decreased by \$337,536 due to the timing of expenses and reimbursements. Accounts Receivable increased by \$45,818 from May relating to billing and collection activity for the clinics.

Intercompany Receivables of \$853,494 represent amounts due from MGH for Clinic reimbursements.

In August 2016, the hospital parking facility was completed and placed into service. The cost of the garage was transferred from Hospital Construction Costs to Parking Garage. The asset is being depreciated over a period of 25 years.

Deposits and Retainers include a \$1,000,000 retainer paid to Marin Medical Practice Concepts (MMPC) of which \$500,000 was transferred in April 2012 and the remainder in October 2016 for operating expenses of the Clinics.

Intangible Assets represent the Cardiovascular Associates of Marin (CAM) asset purchase price that was deemed to be for medical records and other intangibles (\$185,844 and \$675,660 respectively). These balances are reduced each month by amortization over a period of 15 years.



The balance of the proceeds from the bonds issued in November 2015 (\$66,743,978) is reflected in the account “Assets Limited to Use – Bond Funds”. Hospital Construction Costs incurred to date are \$128,872,168.

### **Liabilities and Net Assets**

Accounts Payable of \$3,824,881 and Accrued Expenses of \$14,735,255 are comprised of invoices payable and accruals for District, construction, and clinic expenses.

Bonds payable are separated into current (principal due within one year) and non-current (due in greater than one year). Bond Premium represents payments by bond purchasers greater than the face amount of the bond because the stated interest rate of the bonds was higher than the market rate at the date of issuance. The premium is amortized over the life of the bonds as a reduction to interest expense.

The net assets of the District are \$25,207,613.



**Marin Healthcare District**  
**Balance Sheet**  
**June 30, 2017**

	6/30/2017	5/31/2017	Change	12/31/2016
<b>Assets</b>				
<b>Current Assets</b>				
Cash and Cash Equivalents	4,133,619	4,471,155	(337,536)	2,803,128
Net Patient Accounts Receivable	2,997,888	2,952,070	45,818	2,298,670
Other Receivables	69,789	70,082	(293)	141,958
Intercompany Receivables	853,494	941,769	(88,275)	1,142,733
Inventories	19,193	19,777	(584)	15,692
Tax Revenues Receivable	-	-	-	1,776,393
Prepaid Expenses	107,405	100,934	6,471	51,252
<b>Total Current Assets</b>	<b>8,181,389</b>	<b>8,555,787</b>	<b>(374,398)</b>	<b>8,229,826</b>
Property, plant, and equipment, net	5,309,068	5,310,725	(1,658)	5,417,320
Parking Garage, net	23,834,506	23,916,979	(82,472)	24,329,340
Hospital Construction Costs	105,037,662	98,143,225	6,894,437	68,351,311
Intangible Assets, net	543,687	548,457	(4,770)	572,307
Assets Limited To Use - Bond Funds	66,743,978	71,472,935	(4,728,957)	96,885,786
Notes Receivable	238,021	239,161	(1,140)	210,037
Deposits & Retainers	1,072,633	1,072,633	-	1,072,633
<b>Total Non-Current Assets</b>	<b>202,779,554</b>	<b>200,704,115</b>	<b>2,075,439</b>	<b>196,838,734</b>
<b>Total Assets</b>	<b>210,960,944</b>	<b>209,259,902</b>	<b>1,701,042</b>	<b>205,068,560</b>
<b>Liabilities and Net assets</b>				
<b>Current Liabilities</b>				
Accounts Payable	3,824,881	4,179,537	(354,656)	2,475,914
Accrued Expenses	14,735,255	12,546,083	2,189,172	9,808,707
Intercompany Payables	1,100,000	1,116,667	(16,667)	1,200,000
Current Bond Maturities	2,645,000	2,645,000	-	2,645,000
Current Maturities of Long-Term Obligations	-	-	-	-
<b>Total Current Liabilities</b>	<b>22,305,136</b>	<b>20,487,287</b>	<b>1,817,849</b>	<b>16,129,621</b>
Bonds Payable	154,740,000	154,740,000	-	154,740,000
Bond Premium	8,205,188	8,229,903	(24,715)	8,353,475
Long-Term Obligations, Less Current Maturities	503,005	505,842	(2,837)	78,044
<b>Total Liabilities</b>	<b>185,753,330</b>	<b>183,963,032</b>	<b>1,790,298</b>	<b>179,301,140</b>
<b>Net Assets</b>				
Net Assets - Beginning Balance	25,767,421	25,767,421	(0)	25,781,263
Net (Loss)/Income	(559,808)	(470,551)	(89,257)	(13,843)
<b>Total Net Assets</b>	<b>25,207,613</b>	<b>25,296,870</b>	<b>(89,257)</b>	<b>25,767,420</b>
<b>Total Liabilities and Net Assets</b>	<b>210,960,944</b>	<b>209,259,902</b>	<b>1,701,042</b>	<b>205,068,560</b>

**Marin Healthcare District**  
**Income Statement - Actual vs. Budget**  
**For the Six Months Ended June 30, 2017**

	June Month-to-Date			June Year-to-Date		
	Actual	Budget	Variance	Actual	Budget	Variance
Rental Revenue	\$42,542	\$42,500	\$42	\$255,250	\$255,000	\$250
Other Revenue	0	0	0	0	0	0
Investment Earnings	3,697	250	3,447	40,064	1,500	38,564
<b>Total Income</b>	<b>46,239</b>	<b>42,750</b>	<b>3,489</b>	<b>295,314</b>	<b>256,500</b>	<b>38,814</b>
Legal Fees	3,842	3,333	(509)	17,822	20,000	2,178
Accounting Fees	1,667	1,667	0	10,833	10,000	(833)
Board Compensation	800	1,017	217	5,600	6,100	500
Board Expenses	151	2,083	1,932	3,725	12,500	8,775
Depreciation Expense	111,370	142,907	31,537	668,218	857,442	189,224
Consulting Fees	0	0	0	0	0	0
Charitable Contributions	0	500	500	0	3,000	3,000
Community Education	0	2,500	2,500	31,359	15,000	(16,359)
Dues	1,000	1,000	0	6,000	6,000	0
MGH Program Support	16,667	16,667	0	100,000	100,000	0
Advertising	0	0	0	11,565	0	(11,565)
<b>Total Expense</b>	<b>135,496</b>	<b>171,674</b>	<b>36,178</b>	<b>855,122</b>	<b>1,030,042</b>	<b>174,920</b>
<b>Net District Operating Income</b>	<b>(89,257)</b>	<b>(128,924)</b>	<b>39,667</b>	<b>(559,807)</b>	<b>(773,542)</b>	<b>213,735</b>
<b>Non-Operating Income/Expense</b>						
<b>Clinic Activity</b>						
Net Loss From Clinics	(890,703)	(736,632)	(154,071)	(5,074,712)	(4,448,716)	(625,996)
MGH Clinic Reimbursement	890,703	736,632	154,071	5,074,712	4,448,716	625,996
<b>Net Clinic Activity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Bond-Related Revenue/Expense</b>						
Tax Revenue	0	0	0	0	0	0
Bond Fund Earnings (transferred to construction in progress)	0	0	0	0	0	0
Bond Issuance Costs	0	0	0	0	0	0
<b>Net Income/(Loss)</b>	<b>(\$89,257)</b>	<b>(\$128,924)</b>	<b>\$39,667</b>	<b>(\$559,807)</b>	<b>(\$773,542)</b>	<b>\$213,735</b>

Marin Healthcare District  
1206b Clinics  
Summary of Profit & Loss - Accrual Basis  
For the Six Months Ended June 30, 2017

Managed Clinics	# MD/NP	# Of Months	MTD			Monthly Invest/MD	YTD			Avg. Annual Invest/MD
			Actual	Budget	Variance		Actual	Budget	Variance	
San Rafael Medical Center	0.80	6.00	(3,528)	(2,642)	(886)	(4,409)	(6,333)	(15,852)	9,519	(15,833)
North Marin Internal (Novato)										
Marin Medical Group (MMG)	3.50	6.00	(56,817)	(41,876)	(14,941)	(16,233)	(304,907)	(251,256)	(53,651)	(174,233)
El-Ghoneimy	2.00	6.00	(14,411)	(2,972)	(11,439)	(7,206)	(50,341)	(17,832)	(32,509)	(50,341)
Tamalpais Internal Medicine (TIM)	2.82	6.00	(23,684)	(6,085)	(17,599)	(8,398)	(64,529)	(36,510)	(28,019)	(45,765)
Cardiology Associates (CAM)	15.65	6.00	(444,916)	(424,025)	(20,891)	(28,429)	(2,742,498)	(2,543,758)	(198,740)	(350,479)
Urology	4.00	6.00	(87,998)	(54,940)	(33,058)	(21,999)	(489,753)	(312,896)	(176,857)	(244,876)
Vascular Surgery	4.00	6.00	(103,500)	(90,365)	(13,135)	(25,875)	(523,591)	(542,548)	18,957	(261,796)
Marin Endocrine	3.50	6.00	(23,308)	(30,526)	7,218	(6,660)	(243,581)	(177,192)	(66,389)	(139,189)
2 Bon Air - Rheumatology/Chase	3.19	6.00	(28,117)	7,039	(35,156)	(8,814)	11,386	63,226	(51,840)	7,139
Murphy	3.20	6.00	(13,532)	(7,324)	(6,208)	(4,229)	(126,511)	(43,944)	(82,567)	(79,070)
Novato Medical Office	5.00	6.00	(41,711)	(19,426)	(22,285)	(8,342)	(323,365)	(192,604)	(130,761)	(129,346)

<b>Totals</b>	<b>47.66</b>		<b>(\$841,520)</b>	<b>(\$673,142)</b>	<b>(\$168,378)</b>		<b>(\$4,864,023)</b>	<b>(\$4,071,166)</b>	<b>(\$792,857)</b>	
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Palliative Care	1.00	6.00	(\$10,007)	(\$8,183)	(\$1,824)	(10,007)	(\$52,806)	(\$49,098)	(\$3,708)	(\$105,612)
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Clinic Administration	0.00	6.00	(\$14,742)	(\$23,852)	\$9,110		(\$63,970)	(\$139,722)	\$75,752	
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Self - Managed Clinics	# MD/NP	# Of Months	MTD			Monthly Invest/MD	YTD			Avg. Annual Invest/MD
			Actual	Budget	Variance		Actual	Budget	Variance	
West Marin Medical Center (Pt. Reyes)	3.50	6.00	(8,857)	(8,928)	71	(2,531)	(57,799)	(53,568)	(4,231)	(33,028)
Soluna Health	0.00	0.00	(42)	0	(42)		(252)	0	(252)	
<b>Totals</b>	<b>3.50</b>		<b>(\$8,899)</b>	<b>(\$8,928)</b>	<b>\$29</b>		<b>(\$58,051)</b>	<b>(\$53,568)</b>	<b>(\$4,483)</b>	

<b>Totals Before Behavioral Health</b>	<b>52.16</b>		<b>(\$875,167)</b>	<b>(\$714,105)</b>	<b>(\$161,062)</b>		<b>(\$5,038,849)</b>	<b>(\$4,313,554)</b>	<b>(\$725,295)</b>	
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Behavioral Health (Note 1)	5.10	6.00	(\$15,536)	(\$22,527)	\$6,991	(\$3,046)	(\$35,863)	(\$135,162)	\$99,299	(\$14,064)
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<b>Total All Clinics</b>	<b>57.26</b>		<b>(\$890,703)</b>	<b>(\$736,632)</b>	<b>(\$154,071)</b>		<b>(\$5,074,712)</b>	<b>(\$4,448,716)</b>	<b>(\$625,996)</b>	
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Note 1 - Up to \$200K of Behavioral Health Clinic losses is included in the Program Support payments by the District to MGH