



*Report of Independent Auditors and  
Financial Statements*

**Marin Healthcare District**

*December 31, 2021 and 2020*

## **Table of Contents**

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<b>MANAGEMENT'S DISCUSSION AND ANALYSIS .....</b>	<b>1</b>
<b>REPORT OF INDEPENDENT AUDITORS .....</b>	<b>6</b>
<b>FINANCIAL STATEMENTS</b>	
Statements of Net Position.....	10
Statements of Revenues, Expenses, and Changes in Net Position.....	11
Statements of Cash Flows .....	12
Notes to Financial Statements .....	13

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

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# **Marin Healthcare District Management's Discussion and Analysis For the Years Ended December 31, 2021 and 2020**

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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 years ended December 31, 2021 and 2020. 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 subdivision of the state of California. It is the sole member of Marin General Hospital, dba MarinHealth Medical Center (MHMC) and is governed by a publicly-elected Board of Directors.

**Marin Healthcare District**  
**Management's Discussion and Analysis**  
**For the Years Ended December 31, 2021 and 2020**

**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,		
	2021	2020	2019
Current and other assets	\$ 23,402,220	\$ 36,313,761	\$ 62,444,589
Capital assets, net of accumulated depreciation	429,837,712	444,271,644	441,531,179
Total assets	\$ 453,239,932	\$ 480,585,405	\$ 503,975,768
Current portion of bond payable	\$ 680,000	\$ 430,000	\$ 190,000
Other current liabilities	8,913,990	22,768,542	53,687,121
Bond payable, net of current portion	388,328,642	389,985,067	391,391,492
Total liabilities	397,922,632	413,183,609	445,268,613
Net position			
Net investment in capital assets	50,295,762	62,774,429	56,305,759
Unrestricted	5,021,538	4,627,367	2,401,396
Total net position	55,317,300	67,401,796	58,707,155
Total liabilities and net position	\$ 453,239,932	\$ 480,585,405	\$ 503,975,768

Total assets decreased by 6% or \$27,345,473 as of December 31, 2021, compared to December 31, 2020, primarily due to decrease in assets limited to use – bond funds. Total assets decreased by 5% or \$23,390,363 as of December 31, 2020, compared to December 31, 2019, primarily due to decrease in assets limited to use – bond funds.

Liabilities decreased by 4% or \$15,260,977 as of December 31, 2021, compared to December 31, 2020, primarily due to reduction in accrued construction costs. Liabilities decreased by 7% or \$32,085,004 as of December 31, 2020, compared to December 31, 2019, primarily due to reduction in accrued construction costs.

The overall changes to net position is a decrease of \$12,084,496, resulting in a December 31, 2021, balance of \$55,317,300. An unrestricted net position of \$5,021,538 exists for the year ended December 31, 2021, as a result of resources in excess of net investments in capital assets.

**Marin Healthcare District  
Management's Discussion and Analysis  
For the Years Ended December 31, 2021 and 2020**

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating revenues	\$ 550,946	\$ 582,339	\$ 531,124
Operating expenses	<u>14,890,290</u>	<u>5,020,327</u>	<u>1,764,623</u>
Operating loss	<u>(14,339,344)</u>	<u>(4,437,988)</u>	<u>(1,233,499)</u>
Tax revenue	16,616,446	16,497,711	11,647,284
Bond interest expense	(14,305,346)	(3,577,456)	-
Interest and investment (loss) income	<u>(56,252)</u>	<u>212,374</u>	<u>160,244</u>
Total nonoperating revenues, net	<u>2,254,848</u>	<u>13,132,629</u>	<u>11,807,528</u>
Gain on sale of Clinics assets	-	-	770,096
Transfer of payment for sale of Clinics assets to MHMC	<u>-</u>	<u>-</u>	<u>(1,054,924)</u>
Total special and extraordinary items	<u>-</u>	<u>-</u>	<u>(284,828)</u>
(Decrease) increase in net position	<u>\$ (12,084,496)</u>	<u>\$ 8,694,641</u>	<u>\$ 10,289,201</u>

*Operating Revenues and Expenses*

For the years ending December 31, 2021, 2020, and 2019, operating losses were primarily due to the depreciation incurred by the District.

*Nonoperating Revenues and Expenses*

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.

**Marin Healthcare District  
Management's Discussion and Analysis  
For the Years Ended December 31, 2021 and 2020**

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*Business Segment Disposal*

In January 2019 the District entered into an agreement with Prima Medical Foundation, dba MarinHealth Medical Network (MHMN) and University of California, San Francisco (UCSF), whereby the Clinic's physicians rendered their services and professional service agreements to the UCSF academic license 1206(g). As part of the agreement, MHMN gained control and operation of the Clinics, and assumed responsibility of all the District's prepaid assets, intangible assets, property leases, and notes payable related to the Clinics. Furthermore, on January 1, 2019, the District entered into a purchase and sale agreement with MHMN for the purchase of capital assets and inventory.

*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 MHMC 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 MHMC 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, 2021, is presented below.

	Actual	Budget
Operating revenues	\$ 550,946	\$ 590,615
Operating expenses	14,890,290	12,893,665
Operating loss	(14,339,344)	(12,303,050)
Tax revenue	16,616,446	16,395,037
Bond interest expense	(14,305,346)	(14,290,575)
Interest and investment income	(56,252)	70,541
Nonoperating revenues	2,254,848	2,175,003
Change in net position	\$ (12,084,496)	\$ (10,128,047)

The budget above is for the operations of the District, which includes bond-related revenue and expenses.

**Marin Healthcare District  
Management’s Discussion and Analysis  
For the Years Ended December 31, 2021 and 2020**

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**Operating revenues** – The majority of the District’s operating revenues are comprised of rental revenue earned from MHMC, with a trivial amount of other revenue, and were under budget by \$39,669.

**Operating expenses** – The District conducts programs such as community healthcare education and support for hospital programs. The District’s operating expenses were \$1,996,625 in excess of budget, due to loss on impairment of capital assets.

**Tax revenue** – The District earned tax revenue, which 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.

**Interest and investment income** – The District earned interest and dividend income from the accounts in which the investments are held.

**CAPITAL ASSETS**

As of December 31, 2021, the District had \$429,837,712 invested in a variety of capital assets, as reflected in the following schedule, which represent a net decrease of \$14,443,932 from December 31, 2020. The decreases in year ended December 31, 2021, is the result of the construction of the new hospital facility, which was completed and moved to depreciable capital assets on September 30, 2020, as well as the \$2,490,751 related to the impairment of a portion of the hospital building.

	<u>Balance at December 31,</u>	
	<u>2021</u>	<u>2020</u>
Land	\$ 865,701	\$ 865,701
Hospital buildings and leasehold improvements	471,683,811	474,174,562
Equipment	18,784,416	18,784,416
Less accumulated depreciation	<u>(61,496,216)</u>	<u>(49,553,035)</u>
Capital assets, net of accumulated depreciation	<u>\$ 429,837,712</u>	<u>\$ 444,271,644</u>

**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**

The Board of Directors  
Marin Healthcare District

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of Marin Healthcare District (the District), which comprise the statements of net position as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Marin Healthcare District as of December 31, 2021 and 2020, 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.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the California Code of Regulations, Title 2, Section 1131.2, State Controller's Minimum Audit Requirements for California Special Districts. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Marin Healthcare District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Marin Healthcare District's ability to continue as a going concern within one year after the date that the financial statements are issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Marin Healthcare District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Marin Healthcare District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal-control-related matters that we identified during the audit.

***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 5 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

Rancho Cordova, California  
June 22, 2022

## **Financial Statements**

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**Marin Healthcare District**  
**Statements of Net Position**  
**December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 712,254	\$ 797,054
Investments	3,976,384	4,015,498
Current portion of bond assets held in trust	2,426,274	8,917,852
Tax revenue receivable	6,785,670	6,507,631
Prepaid expenses	3,600	-
Total current assets	<u>13,904,182</u>	<u>20,238,035</u>
Deposits	36,000	36,000
Capital assets, net of accumulated depreciation	429,837,712	444,271,644
Bond assets held in trust, net of current portion	<u>9,462,038</u>	<u>16,039,726</u>
Total assets	<u><u>\$ 453,239,932</u></u>	<u><u>\$ 480,585,405</u></u>
<b>LIABILITIES</b>		
Current liabilities		
Accrued expenses	127,579	359,545
Accrued construction costs	2,421,620	16,039,726
Accrued interest expense	6,364,791	6,369,271
Current portion of bonds payable	<u>680,000</u>	<u>430,000</u>
Total current liabilities	<u>9,593,990</u>	<u>23,198,542</u>
Bonds payable, net of current portion	<u>388,328,642</u>	<u>389,985,067</u>
Total liabilities	<u><u>397,922,632</u></u>	<u><u>413,183,609</u></u>
<b>NET POSITION</b>		
Net investment in capital assets	50,295,762	62,774,429
Unrestricted	<u>5,021,538</u>	<u>4,627,367</u>
Total net position	<u>55,317,300</u>	<u>67,401,796</u>
Total liabilities and net position	<u><u>\$ 453,239,932</u></u>	<u><u>\$ 480,585,405</u></u>

**Marin Healthcare District**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2021 and 2020**

	2021	2020
OPERATING REVENUES		
Lease income	\$ 550,946	\$ 543,991
Other income	-	38,348
Total operating revenues	550,946	582,339
OPERATING EXPENSES		
Purchased services	371,229	700,767
Depreciation and amortization	11,943,181	4,047,534
Charitable contributions	45,821	53,285
Loss on impairment of capital assets	2,490,751	-
Other	39,308	218,741
Total operating expenses	14,890,290	5,020,327
OPERATING LOSS	(14,339,344)	(4,437,988)
NONOPERATING REVENUES (EXPENSES)		
Tax revenue	16,616,446	16,497,711
Interest and investment (loss) income	(56,252)	212,374
Bond interest expense	(14,305,346)	(3,577,456)
Total nonoperating revenues, net	2,254,848	13,132,629
(DECREASE) INCREASE IN NET POSITION	(12,084,496)	8,694,641
NET POSITION, beginning of year	67,401,796	58,707,155
NET POSITION, end of year	\$ 55,317,300	\$ 67,401,796

**Marin Healthcare District**  
**Statements of Cash Flows**  
**Years Ended December 31, 2021 and 2020**

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from tenants	\$ 550,946	\$ 582,339
Payments to suppliers and others	(691,924)	(1,385,864)
Net cash used in operating activities	<u>(140,978)</u>	<u>(803,525)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	(13,618,106)	(26,628,843)
Principal payments on bonds payable	(430,000)	(190,000)
Interest payments on bonds payable	(15,286,251)	(15,097,757)
Tax revenue related to general obligation bonds	16,338,407	14,202,789
Net cash used in capital and related financing activities	<u>(12,995,950)</u>	<u>(27,713,811)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(250,000)	(4,206,046)
Proceeds from sales and maturities of investments	250,000	3,591,915
Net proceeds from sales and maturities of bond assets held in trust	13,074,533	27,525,503
(Losses) earnings on investments	(22,405)	206,775
Net cash provided by investing activities	<u>13,052,128</u>	<u>27,118,147</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(84,800)	(1,399,189)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>797,054</u>	<u>2,196,243</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 712,254</u>	<u>\$ 797,054</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES</b>		
Operating loss	\$ (14,339,344)	\$ (4,437,988)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	11,943,181	4,047,534
Loss on impairment of capital assets	2,490,751	-
Changes in certain assets and liabilities:		
Prepaid expenses	(3,600)	-
Due from related parties	-	120,788
Accounts payable	-	(496)
Accrued expenses	(231,966)	214,994
Due to related parties	-	(748,357)
Net cash used in operating activities	<u>\$ (140,978)</u>	<u>\$ (803,525)</u>

**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 Marin General Hospital, dba MarinHealth Medical Center (MHMC). The financial information of MHMC is not included in these financial statements.

Effective June 30, 2010, the District became the sole member of MHMC and appointed its initial Board of Directors. The MHMC Board is responsible for oversight of the operations of MHMC 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.

**Business segment disposal** – On January 1, 2019, the District entered into an agreement with Prima Medical Foundation, dba MarinHealth Medical Network (MHMN) and University of California, San Francisco (UCSF), whereby the Clinic's physicians rendered their services and professional service agreements to the UCSF academic license 1206(g). As part of the agreement, MHMN gained control and operation of the Clinics, and assumed responsibility of all the District's prepaid assets, intangible assets, property leases, and notes payable related to the Clinics. Furthermore, on January 1, 2019, the District entered into a purchase and sale agreement with MHMN for the purchase of capital assets and inventory.

**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.

## Marin Healthcare District Notes to Financial Statements

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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.

**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 \$67,175 and \$4,338, and realized and unrealized (losses) gains of (\$55,544) and \$208,036 for the years ended December 31, 2021 and 2020, respectively, are included in interest and investment income on the statement of revenues, expenses, and changes 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 \$4,321 and \$185,103 are included in interest and investment income on the statement of revenues, expenses, and changes in net position.

**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. An impairment of \$2,490,751 has been recorded for the year ended December 31, 2021. The impairment is related to a write off of planning costs for a project that was discontinued. No impairment was recorded for the year ended December 31, 2020.

**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

**Lease income** – The District recognizes lease income and reimbursement of operating expenses when earned. The District derives all of its lease income from MHMC (see Note 5).

**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 MHMC. 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, including loss on impairment of capital assets.

**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.

### 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:

	2021	2020
Cash in bank	\$ 387,599	\$ 473,401
State of California's Local Agency Investment Fund (LAIF)	324,655	323,653
Cash and cash equivalents	712,254	797,054
Investments		
Mutual funds	2,381,944	2,055,703
Money market funds	10,138	610,110
U.S. fixed income commingled funds	1,584,302	1,349,685
	3,976,384	4,015,498
Bond assets held in trust		
Money market funds	9,519,403	13,887,949
U.S. Treasury obligations	2,368,909	11,069,629
	11,888,312	24,957,578
Total	\$ 16,576,950	\$ 29,770,130

## Marin Healthcare District Notes to Financial Statements

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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, 2021 and 2020, the estimated market value of the pool (including accrued interest) was \$29,848,346 and \$29,719,484, respectively. The District's proportionate share of that value is \$324,655 and \$323,653 as of December 31, 2021 and 2020, respectively.

**Mutual funds and money market funds** – The District's mutual funds and money market funds are primarily invested in government and corporate debt, asset-backed securities, U.S. Treasury securities, and global debt. The objective of these funds is to provide steady cash flow to investors.

**U.S. fixed income commingled funds** – This class includes investments in commingled funds that invest primarily in domestic equity or debt securities. The objective of these investments is to capture similar market returns in their respective indices. The funds' underlying positions are all marketable and priced regularly, but the majority of the funds themselves are priced monthly on a net asset value basis. U.S. fixed income commingled funds are accessible for full liquidity on a daily basis.

**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 money market funds, and U.S. Treasury obligations, 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 when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the Chief Executive Officer and Chief Financial Officer of the District shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the District, to safeguard the principal and maintain the liquidity needs of the District.

**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, 2021 and 2020, 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:

2021				
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
Money market funds	9,529,541	\$ -	\$ -	\$ 9,529,541
U.S. Treasury obligations	2,368,909	-	-	2,368,909
Mutual funds				
Govt/Corp intermediate	1,585,497	-	-	1,585,497
Corp/Pref-high yield	796,447	-	-	796,447
Total mutual funds	2,381,944	-	-	2,381,944
	14,280,394	-	-	14,280,394
U.S. fixed income commingled funds*	-	-	-	1,584,302
Total investments	<u>\$ 14,280,394</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,864,696</u>
2020				
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
Money market funds	\$ 14,498,059	\$ -	\$ -	\$ 14,498,059
U.S. Treasury obligations	11,069,629	-	-	11,069,629
Mutual funds				
Govt/Corp intermediate	1,386,245	-	-	1,386,245
Corp/Pref-high yield	669,458	-	-	669,458
Total mutual funds	2,055,703	-	-	2,055,703
	27,623,391	-	-	27,623,391
U.S. fixed income commingled funds*	-	-	-	1,349,685
Total investments	<u>\$ 27,623,391</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,973,076</u>

\*The amounts of marketable securities measured at net asset value (NAV) presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of net position.

During 2021 and 2020, there was no activity in Level 3 investments.

## Marin Healthcare District Notes to Financial Statements

Commingled funds are reported at fair value as reported by the fund managers based on discounted cash flows, estimated market values, and other unobservable inputs. The commingled funds report fair value using a calculated NAV. There are no redemption limitations, except as noted below, or unfunded commitments at December 31, 2021.

Commingled Fund	Redemption	Redemption Notice Period	Redemption Availability
U.S. fixed income commingled funds	Any business day of each month	2 business days prior to trade date	Within 2 business days after trade date (subject to liquidity limitations)

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, follows:

2021				
Investment maturities (in years)				
	Fair Value	Less than 1	1 to 5	More than 5
Money market funds	\$ 9,529,541	\$ 9,529,541	\$ -	\$ -
U.S. Treasury obligations	2,368,909	2,368,909	-	-
	11,898,450	<u>\$ 11,898,450</u>	<u>\$ -</u>	<u>\$ -</u>
Mutual funds	2,381,944			
U.S. fixed income commingled funds	1,584,302			
	<u>\$ 15,864,696</u>			
2020				
Investment maturities (in years)				
	Fair Value	Less than 1	1 to 5	More than 5
Money market funds	\$ 14,498,059	\$ 14,498,059	\$ -	\$ -
U.S. Treasury obligations	11,069,629	11,069,629	-	-
	25,567,688	<u>\$ 25,567,688</u>	<u>\$ -</u>	<u>\$ -</u>
Mutual funds	2,055,703			
U.S. fixed income commingled funds	1,349,685			
	<u>\$ 28,973,076</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, 2021 and 2020:

	Life (Years)	Balance December 31, 2020	Additions	Deletions	Loss	Balance December 31, 2021
<b>Nondepreciable</b>						
Land	N/A	\$ 865,701	\$ -	\$ -	\$ -	\$ 865,701
Total nondepreciable		865,701	-	-	-	865,701
<b>Depreciable</b>						
Hospital buildings	40	472,796,667	-	-	(2,490,751)	470,305,916
Equipment	3 to 20	18,784,416	-	-	-	18,784,416
Leasehold improvements	40	1,377,895	-	-	-	1,377,895
Total depreciable		492,958,978	-	-	(2,490,751)	490,468,227
<b>Accumulated depreciation</b>						
Hospital buildings	N/A	(29,390,724)	(11,943,181)	-	-	(41,333,905)
Equipment	N/A	(18,784,416)	-	-	-	(18,784,416)
Leasehold improvements	N/A	(1,377,895)	-	-	-	(1,377,895)
Total accumulated depreciation		(49,553,035)	(11,943,181)	-	-	(61,496,216)
Total depreciable, net		443,405,943	(11,943,181)	-	(2,490,751)	428,972,011
Total capital assets, net		\$ 444,271,644	\$ (11,943,181)	\$ -	\$ (2,490,751)	\$ 429,837,712
<b>2020</b>						
	Life (Years)	Balance December 31, 2019	Additions	Deletions	Transfers	Balance December 31, 2020
<b>Nondepreciable</b>						
Land	N/A	\$ 865,701	\$ -	\$ -	\$ -	\$ 865,701
Construction in progress	N/A	412,438,343	11,937,273	(5,149,274)	(419,226,342)	-
Total nondepreciable		413,304,044	11,937,273	(5,149,274)	(419,226,342)	865,701
<b>Depreciable</b>						
Hospital buildings	40	53,570,325	-	-	419,226,342	472,796,667
Equipment	3 to 20	18,784,416	-	-	-	18,784,416
Leasehold improvements	40	1,377,895	-	-	-	1,377,895
Total depreciable		73,732,636	-	-	419,226,342	492,958,978
<b>Accumulated depreciation</b>						
Hospital buildings	N/A	(25,343,190)	(4,047,534)	-	-	(29,390,724)
Equipment	N/A	(18,784,416)	-	-	-	(18,784,416)
Leasehold improvements	N/A	(1,377,895)	-	-	-	(1,377,895)
Total accumulated depreciation		(45,505,501)	(4,047,534)	-	-	(49,553,035)
Total depreciable, net		28,227,135	(4,047,534)	-	419,226,342	443,405,943
Total capital assets, net		\$ 441,531,179	\$ 7,889,739	\$ (5,149,274)	\$ -	\$ 444,271,644

Depreciation expense of capital assets was \$11,943,181 and \$4,047,534 for the years ended December 31, 2021 and 2020, respectively.

## Marin Healthcare District Notes to Financial Statements

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**Construction and other capital commitments** – As of December 31, 2021 and 2020, the District spent \$0 and \$419,226,342, respectively, related to various construction and other capital projects in progress. As of December 31, 2021, the District has outstanding commitments with contractors for approximately \$2,421,620 related to these projects.

### NOTE 5 – LEASE OF MARIN HEALTHCARE DISTRICT FACILITY

**Annual rental payments** – Effective December 1, 1985, the District leased the Hospital Facility to MHMC 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 was executed in August 2014 with an effective date of December 2, 2015, 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 MHMC achieving certain financial benchmarks. The total rent received for the years ended December 31, 2021 and 2020, was \$550,946 and \$543,991, 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>	
2022	\$ 500,000
2023	500,000
2024	500,000
2025	500,000
2026	500,000
Thereafter	<u>9,458,333</u>
	<u>\$ 11,958,333</u>

### NOTE 6 – 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.

## Marin Healthcare District Notes to Financial Statements

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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 MHMC 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 MHMC and related facilities with new construction, acquisitions, and renovations; and to 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 \$14,305,346 and \$14,313,625 for the years ended December 31, 2021 and 2020, respectively. In accordance with GASB 62, the District capitalized \$0 and \$10,431,543 in interest for the years ended December 31, 2021 and 2020, respectively, due to the ongoing construction; offset by \$0 and \$185,103 of investment gains for the years ended December 31, 2021 and 2020, 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, 2021 and 2020, was as follows:

	Outstanding December 31, 2020	Issued	Matured / Redeemed During Year	Outstanding December 31, 2021	Due Within One Year
General obligation bonds					
Series 2015 bonds	\$ 154,550,000	\$ -	\$ (430,000)	\$ 154,120,000	\$ 680,000
Series 2017 bonds	211,305,000	-	-	211,305,000	-
Plus					
Series 2015 premium	7,167,183	-	(296,573)	6,870,610	-
Series 2017 premium	17,392,884	-	(679,852)	16,713,032	-
Total	<u>\$ 390,415,067</u>	<u>\$ -</u>	<u>\$ (1,406,425)</u>	<u>\$ 389,008,642</u>	<u>\$ 680,000</u>

## Marin Healthcare District Notes to Financial Statements

	Outstanding December 31, 2019	Issued	Matured / Redeemed During Year	Outstanding December 31, 2020	Due Within One Year
General obligation bonds					
Series 2015 bonds	\$ 154,740,000	\$ -	\$ (190,000)	\$ 154,550,000	\$ 430,000
Series 2017 bonds	211,305,000	-	-	211,305,000	-
Plus					
Series 2015 premium	7,463,756	-	(296,573)	7,167,183	-
Series 2017 premium	18,072,736	-	(679,852)	17,392,884	-
Total	<u>\$ 391,581,492</u>	<u>\$ -</u>	<u>\$ (1,166,425)</u>	<u>\$ 390,415,067</u>	<u>\$ 430,000</u>

A summary of debt service requirements for the next five years and to maturity as of December 31, 2021, is as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2022	680,000	15,275,500
2023	955,000	15,255,100
2024	1,250,000	15,216,900
2025	1,570,000	15,166,900
2026	2,210,000	15,104,100
2027 – 2031	24,240,000	73,274,600
2032 – 2036	53,855,000	64,786,800
2037 – 2041	93,600,000	50,751,700
2042 – 2046	149,130,000	26,489,800
2047	37,935,000	1,517,400
	<u>\$ 365,425,000</u>	<u>\$ 292,838,800</u>

### NOTE 7 – COMMITMENTS AND CONTINGENCIES

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

**Regulatory environment** – The healthcare 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.

## **Marin Healthcare District Notes to Financial Statements**

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**Recent Developments – COVID-19** – On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, and on March 13, 2020, the United States declared the pandemic to be a national emergency. Subsequent to the declaration of a pandemic, a variety of federal, state, and local governments have taken actions in response to the pandemic, which have ranged by jurisdiction, but are generally expected to result in a variety of negative economic consequences, the scope of which are not currently known or quantifiable. The duration and intensity of the impact of the COVID-19 and resulting impact to the District is unknown.

### **NOTE 8 – 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 2021 and 2020, the District did not have a regular tax levy. There is a voter-approved tax levy for service of the general obligation bonds. For 2021 and 2020, the tax levy for bond service was \$16,616,446 and \$16,497,711, 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.

