Report of Independent Auditors
and Financial Statements

Marin Healthcare District

June 30, 2013 and 2012

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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CONTENTS

Marin Healthcare District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended June 30, 2013, 2012, and 2011

This section of Marin Healthcare District's (the District) financial statements presents management's discussion and analysis of the financial activities of the District for the fiscal years ended June 30, 2013, 2012, and 2011. 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. Notes to the financial statements, supplementary detail and/or statistical information, and this summary support these statements. All sections must be considered together to obtain a complete understanding of the financial picture of the District.

Statement of Net Position

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

Statement of Revenues, Expenses, and Changes in Net Position

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

Statement of Cash Flow

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

Notes to the 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 Overview

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

Table 1
Condensed Statement of Net Position

	6/30/2013	6/30/2012	6/30/2011
Current and other assets	$ 6,252,248	$ 6,287,637	$ 4,321,579
Capital assets, net of accumulated depreciation	7,188,373	7,685,188	7,234,710
Total assets	13,440,621	13,972,825	11,556,289
Current liabilities	3,388,099	3,291,712	1,485,629
Long-term debt and other long-term liabilities	3,067,649	4,448,783	3,750,843
Total liabilities	6,455,748	7,740,495	5,236,472
Net position			
Net investment in capital assets	5,173,835	5,437,507	7,234,710
Unrestricted net position (deficit)	1,811,038	794,823	(914,893)
Total net position	$ 6,984,873	$ 6,232,330	$ 6,319,817

Summary

Total assets decreased by 4% or $532,204 at 6/30/2013 compared to 6/30/2012, primarily related to the reduction in capital assets. Total assets increased by 21% or $2,416,536 at 6/30/2012 compared to 6/30/2011, primarily related to the increase in patient accounts receivable associated with the District's 1206b Healthcare Clinics. MGH sponsors the Clinics and provides funding to MHD to cover their costs.

Liabilities decreased by 17% or $1,284,747 at 6/30/2013 compared to 6/30/2012, as a result of the reduction of accounts payable and deferred lease revenue. Liabilities increased by 48% or $2,504,023 at 6/30/2012 compared to 6/30/2011 primarily due to debt obtained related to the acquisition of new clinics.

Effective July 1, 2011, the District's senior management team became employees of MGH. The overall change to net position is an increase of $752,543, resulting in a June 30, 2013 balance of $6,984,873.

Comparative Analysis of Current and Prior Year Activities and Balances

	6/30/2013	6/30/2012	6/30/2011
Operating revenues	$ 14,081,476	$ 8,916,163	$ 2,495,341
Operating expenses	16,943,723	10,640,433	2,473,342
Operating (loss) income	$ (2,862,247)	$ (1,724,270)	$ 21,999
Non-operating revenues	$ 3,614,790	$ 1,636,783	$ 918,868
Change in net position	$ 752,543	$ (87,487)	$ 940,867

The decreases in operating income are primarily due to the losses incurred from the expansion of the Clinics. The operating deficits are funded by MGH, which accounts for the increase in non-operating revenues.

Economic Outlook and Major Initiatives

The Hospital Facilities Seismic Upgrade Act (SB 1953)

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

Payments from Federal and State Health Care Programs

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

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.

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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 balance sheets as of June 30, 2013 and 2012, 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marin Healthcare District as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Moss Adams LLP

Stockton, California
December 4, 2013

FINANCIAL STATEMENTS

	JUNE 30, 2013	JUNE 30, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,540,016	$ 2,324,747
Patient accounts receivable, net of allowance for doubtful accounts of $200,043 and $180,837 in 2013 and 2012, respectively	1,659,665	1,826,922
Other receivables	636,670	645,845
Prepaid expenses	13,920	-
Inventory	13,275	47,536
Total current assets	4,863,546	4,845,050
Deposits	572,906	612,700
Note receivable, net of current portion	43,149	-
Capital assets, net of accumulated depreciation	7,188,373	7,685,188
Intangible assets, net of accumulated amortization	772,647	829,887
Total assets	$ 13,440,621	$ 13,972,825
LIABILITIES		
Current liabilities		
Accounts payable	$ 1,549,665	$ 1,637,314
Accrued expenses	244,498	42,255
Accrued election expense	37,800	62,400
Current portion of note payable	414,538	408,145
Current portion of deferred lease revenue	1,141,598	1,141,598
Total current liabilities	3,388,099	3,291,712
Note payable, net of current portion	1,600,000	1,839,536
Deferred lease revenue, net of current portion	1,467,649	2,609,247
Total liabilities	6,455,748	7,740,495
NET POSITION		
Net investment in capital assets	5,173,835	5,437,507
Unrestricted	1,811,038	794,823
Total net position	6,984,873	6,232,330
Total liabilities and net position	$ 13,440,621	$ 13,972,825

See accompanying notes.

	YEARS ENDED JUNE 30,	
	2013	2012
OPERATING REVENUE		
Net patient service revenue	$ 12,516,866	$ 7,323,830
Lease income	1,564,610	1,592,333
Total operating revenues	14,081,476	8,916,163
OPERATING EXPENSES		
Salaries and benefits	11,905,080	7,248,596
Rent	1,121,332	960,874
Purchased services	1,737,348	753,971
Depreciation and amortization	643,626	515,610
Supplies	674,004	435,954
Community communication and education	262,911	262,507
Insurance	84,904	129,046
Charitable contributions	30,000	-
Other	484,518	333,875
Total operating expenses	16,943,723	10,640,433
OPERATING LOSS	(2,862,247)	(1,724,270)
NON-OPERATING REVENUES (EXPENSES)		
Support from Marin General Hospital	3,657,550	2,571,034
Settlement agreement	-	(910,691)
Interest expense	(47,250)	(26,250)
Other revenue	4,490	2,690
Total non-operating revenues	3,614,790	1,636,783
INCREASE (DECREASE) IN NET POSITION	752,543	(87,487)
NET POSITION, beginning of year	6,232,330	6,319,817
NET POSITION, end of year	$ 6,984,873	$ 6,232,330

See accompanying notes.

	YEARS ENDED JUNE 30, 2013	YEARS ENDED JUNE 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tenants	$ 423,012	$ 450,737
Receipts from patients	12,684,123	5,750,418
Payments to employees and physicians	(11,681,582)	(7,071,057)
Payments to suppliers and others	(4,585,695)	(2,765,400)
Net cash from operating activities	(3,160,142)	(3,635,302)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital asset purchases	(89,571)	(43,721)
Principal payments for CAMSF-related note payable	(200,000)	(750,000)
Proceeds from loan for CAMSF asset acquisition	200,000	750,000
Principal payments for MMG-related note payable	(58,143)	(43,609)
Interest payments on notes payable	(52,500)	-
Net cash from capital and related financing activities	(200,214)	(87,330)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from MGH for operations	3,657,550	2,571,034
Proceeds from loan for MMPC retainer	-	500,000
Net cash from non-capital and related financing activities	3,657,550	3,071,034
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	4,490	2,690
Issuance of notes receivable	(90,000)	-
Proceeds from notes receivable	3,585	-
Net cash from investing activities	(81,925)	2,690
NET CHANGE IN CASH AND CASH EQUIVALENTS	215,269	(648,908)
CASH AND CASH EQUIVALENTS, beginning of year	2,324,747	2,973,655
CASH AND CASH EQUIVALENTS, end of year	$ 2,540,016	$ 2,324,747

See accompanying notes.

	YEARS ENDED JUNE 30, 2013	2012
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating loss	$ (2,862,247)	$ (1,724,270)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	643,626	515,610
Provision for bad debts	95,277	11,409
Changes in certain assets and liabilities:		
Patient accounts receivable	71,980	(1,584,821)
Deposits and other receivables	(82,765)	(1,083,322)
Prepaid expenses	(13,920)	-
Inventory	34,261	-
Accounts payable	(87,649)	1,326,283
Other long-term liabilities	(1,141,598)	(1,141,596)
Accrued expenses	182,893	45,405
Net cash from operating activities	$ (3,160,142)	$ (3,635,302)
SUPPLEMENTAL NON-CASH ACTIVITIES INFORMATION		
Acquisition of clinics through notes payable	$ -	$ 1,866,290
Loan forgiveness from Marin General Hospital	$ (175,000)	$ (75,000)

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.

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

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

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

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.

Accounting standards – Pursuant to Government Accounting Standard Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements*, the District's proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements as well as codified pronouncements issued on or before November 30, 1989.

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

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

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

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.

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

Capital assets are considered impaired when their service utility declines significantly and unexpectedly. An impairment loss is recognized for the difference between the carrying value of the asset and its fair value or adjusted depreciated value, depending on the nature of the impairment. No impairment was recorded for the years ended June 30, 2013 and 2012.

Asset impairment – The District also evaluates the carrying value of its long-lived assets other than capital assets for potential impairment. The evaluations address the estimated recoverability of the assets' carrying value. When events or changes in circumstances indicate that the carrying value may not be recoverable, the excess of the carrying value over the fair value is recorded as impairment. No impairment was recorded for the years ended June 30, 2013 and 2012.

Note receivable – The District entered into a note receivable with a professional medical corporation for advances up to $94,000 in December 2012. The total balance of the note was $87,598 at June 30, 2013. The note has an interest rate of 6% and is unsecured. The District is to receive monthly payments of principal and interest of $4,041 until maturity in 2015. The current portion of the note receivable is included in other receivables in the statement of net position at June 30, 2013.

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

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

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

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

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 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 $95,000 and $11,400 for 2013 and 2012, respectively.

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

	JUNE 30,	
	2013	2012
Medicare	40%	40%
Medi-Cal	4%	11%
Commercial	32%	32%
Self-pay	18%	14%
Other	6%	3%
	100%	100%

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

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 fiscal years ended June 30, 3013 and 2012, the District provided approximately $2,600 and $5,000 in free or discounted services for the poor and underserved. This includes services provided to persons who cannot afford healthcare because of inadequate resources and/or are uninsured or underinsured. Costs are computed based on a relationship of costs to charges similar to a Medicare cost to charge ratio.

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

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

New accounting pronouncements – The GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* (GASB No. 61), which is effective for financial statements for periods beginning after June 15, 2012. GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. It also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The adoption of GASB No. 61 did not have a material effect on the financial statements of the District for the fiscal year ending June 30, 2013.

The GASB issued GASB Statement No. 63 (GASB No. 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is effective for financial statements for periods beginning after December 15, 2011. The requirements of GASB No. 63 will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. Amounts that are required to be reported as deferred outflows of resources should be reported in a statement of financial position in a separate section following assets. Similarly, amounts that are required to be reported as deferred inflows of resources should be reported in a separate section following liabilities. The statement of net position should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position represents the difference between all other elements in a statement of financial position and should be displayed in three components – net investment in capital assets; restricted (distinguishing between major categories of restrictions); and unrestricted. The District has adopted GASB No. 63 for the fiscal year ending June 30, 2013.

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

New accounting pronouncements – The GASB also issued GASB Statement No. 65 (GASB No. 65), *Items Previously Reported as Assets and Liabilities*, which is effective for financial statements for periods beginning after December 15, 2012. GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. It also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The District is currently evaluating the impact of the adoption of GASB No. 65 for the fiscal year ending June 30, 2014.

Reclassifications – Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation. There is no impact to the change in net position in the 2012 financial statements.

NOTE 2 – CASH AND INVESTMENTS

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

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

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

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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

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

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

The management of the state of California Pooled Money Investment Account has indicated to the District that as of June 30, 2013 and 2012 the estimated market value of the pool (including accrued interest) was $27,191,345 and $27,101,652, respectively. The District's proportionate share of that value is $299,019 and $297,857 as of June 30, 2013 and 2012, respectively.

NOTE 3 – CAPITAL ASSETS

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

	Life (Years)	Balance, June 30, 2012	Additions	Deletions	Balance, June 30, 2013
Equipment	3 – 20	$ 18,784,416	$ -	$ -	$ 18,784,416
Hospital buildings	40	24,974,084	-	-	24,974,084
Construction in progress (not depreciated)	N/A	-	-	-	-
Parking structure	40	2,324	-	-	2,324
Phase 1 building	40	102,625	-	-	102,625
Land (not depreciated)	N/A	865,701	-	-	865,701
Other improvements	40	851,182	-	-	851,182
Parking improvements	40	781,404	-	-	781,404
Moveable equipment	3 – 20	1,860,295	89,571	-	1,949,866
Total capital assets		48,222,031	89,571	-	48,311,602
Less accumulated depreciation		(40,536,843)	(586,386)	-	(41,123,229)
Capital assets, net of accumulated depreciation		$ 7,685,188	$ (496,815)	$ -	$ 7,188,373

	Life (Years)	Balance, June 30, 2011	Additions	Deletions	Balance, June 30, 2012
Equipment	3 – 20	$ 18,784,416	$ -	$ -	$ 18,784,416
Hospital buildings	40	24,974,084	-	-	24,974,084
Construction in progress (not depreciated)	N/A	-	-	-	-
Parking structure	40	2,324	-	-	2,324
Phase 1 building	40	102,625	-	-	102,625
Land (not depreciated)	N/A	865,701	-	-	865,701
Other improvements	40	596,491	254,691	-	851,182
Parking improvements	40	781,404	-	-	781,404
Moveable equipment	3 – 20	1,177,515	682,780	-	1,860,295
Total capital assets		47,284,560	937,471	-	48,222,031
Less accumulated depreciation		(40,049,850)	(486,993)	-	(40,536,843)
Capital assets, net of accumulated depreciation		$ 7,234,710	$ 450,478	$ -	$ 7,685,188

NOTE 4 – INTANGIBLE ASSETS

The District acquired intangible assets as part of the acquisition of assets from Cardiovascular Associates of Marin and San Francisco Medical Group, Inc. (CAMSF) (see Note 6).

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

	Life (Years)	Balance, June 30, 2012	Additions	Deletions	Balance, June 30, 2013
Intangible assets:					
Other intangible assets	15	$ 675,660	$ -	$ -	$ 675,660
Medical record – CAM	15	182,844	-	-	182,844
Total intangible assets		858,504	-	-	858,504
Less accumulated amortization		(28,617)	(57,240)	-	(85,857)
Intangibles, net of accumulated amortization		$ 829,887	$ (57,240)	$ -	$ 772,647

NOTE 5 – LEASE OF MARIN HEALTHCARE DISTRICT FACILITY

Annual rental payments – Effective December 1, 1985, the District leased the Marin General Hospital facility to MGH for a term of 30 years pursuant to Section 32126 of the Local Hospital District Law. Per the amended lease agreement dated August 25, 1987, as further amended by the subsequent agreements, the annual rent payments comprise capital expenditures made by MGH and quarterly payments of approximately $104,000 and $99,000 for 2013 and 2012, respectively. The minimum cash payment, which is payable in quarterly installments, increases annually by 5% throughout the lease term.

Due to the significant capital investment required for the hospital modernization program completed in June 1989, MGH's rental payment commitment for capital expenditures due under the entire lease has been satisfied. The advanced capital commitment (including the excess capital commitment) has been recorded as deferred revenue. The total deferred lease revenue was $2,609,247 and $3,750,845 as of June 30, 2013 and 2012, respectively.

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

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

Fiscal Year End	Amortization	Cash Payment	Total
2014	$ 1,141,598	$ 435,638	$ 1,577,236
2015	1,141,598	457,419	1,599,017
2016	326,051	116,670	442,721
Total	$ 2,609,247	$ 1,009,727	$ 3,618,974

NOTE 6 – DEBT AND ACQUISITION

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

	Balance, June 30, 2012	Increases	Decreases	Balance, June 30, 2013
Note payable from CAMSF	$ 1,000,000	$ -	$ (200,000)	$ 800,000
Note payable from MGH	1,175,000	200,000	(175,000)	1,200,000
Note payable from Marin Medical Group	72,681	-	(58,143)	14,538
	$ 2,247,681	$ 200,000	$ (433,143)	$ 2,014,538

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

NOTE 6 – DEBT AND ACQUISITION (CONTINUED)

The total purchase price has been allocated to the assets based on a fair value analysis as follows:

	JUNE 30, 2012
Computer equipment	$ 75,860
Furniture and fixtures	119,610
Medical equipment	393,800
Leasehold improvements	254,690
Inventory	47,536
Medical record	182,844
Other intangible assets	675,660
Assets acquired	$ 1,750,000

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

In April 2012, MGH loaned the District $500,000 as an advance to fund the monthly outside billing and management services company service fee. The vendor pays the administrative overhead of the Clinics and then bills the District for reimbursement. The advance is meant to ensure that the vendor has adequate cash on hand to meet its obligations. The outstanding balance of $500,000 is payable to MGH at the termination of the agreement for outside billing and management services and has been classified as long-term at June 30, 2013.

In November 2011, the District purchased assets of Marin Medical Group. In connection with the asset purchase, the District obtained a note payable for $116,290 payable in eight quarterly installments.

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

Years ending June 30,	Principal	Interest
2014	$ 414,538	$ 36,750
2015	400,000	26,250
2016	400,000	15,750
2017	800,000	5,250
	$ 2,014,538	$ 84,000

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.

Outside billing and management services – The District signed an agreement for three years with an outside billing service company, effective August 1, 2012, to perform the billing and collection functions for the District. The contract is automatically renewed for one year. The annual management fee for the services is $98,333 and $120,000 for 2013 and 2012, respectively.

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.

In 2013, a physician filed a claim against the District for potential violations of the professional service agreement between the physician and the District.

NOTE 8 – RELATED PARTY TRANSACTIONS

The following transactions are conducted with affiliated entities:

Effective June 30, 2010, the lease agreement between the District and MGH was amended. The amended lease agreement requires that MGH provide financial support to the District relating to the operation of the Clinics. MGH provided $3,467,746 and $2,245,202 to the District for the operation of the Clinics in 2013 and 2012, respectively. Additionally, the lease agreement also requires MGH to reimburse a portion of the District's administrative, rent, and non-clinic expenses.

The District has a receivable of $586,028 and $583,435 due from MGH, as of June 30, 2013 and 2012, respectively, included in the statements of net position.

NOTE 9 – OPERATING LEASES

The District and the Clinics lease office facilities under a non-cancelable operating lease. The total cost for the leases was $1,139,763 for the fiscal year ended June 30, 2013. The future minimum lease payments were as follows:

Years ending June 30,	Amount
2014	$ 832,605
2015	1,108,510
2016	228,453
2017	85,606
2018	75,312
Thereafter	-
	$ 2,330,486

NOTE 10 – SETTLEMENT AGREEMENT

The District and MGH alleged that Sutter Health (Sutter), a northern California-based not-for-profit integrated health system, had breached its fiduciary duty to MGH, as well as other breaches of contractual rights and obligations. Sutter had filed certain counterclaims against the District and MGH. In August 2012, the arbitrator declared MGH and MHD as the prevailing parties, with Sutter having no net recovery on its counterclaims. As part of the settlement, the District had written off $910,691 of related intercompany receivables during the fiscal year ended June 30, 2012.

NOTE 11 – SUBSEQUENT EVENT

In July 2013, the District's Board of Directors voted to place a measure on the ballot for the Marin County local elections. Measure "F" as it has been designated, if approved by 2/3rds of the District's voters, would authorize the District to issue $394,000,000 in General Obligation bonds for the purpose of seismic upgrades and improvements to MGH and its campus. The election for Measure "F" was on November 5, 2013, and was confirmed on November 15th that it was passed.