



Report of Independent Auditors  
and Financial Statements

**Marin Healthcare District**

June 30, 2010 and 2009

**MOSS-ADAMS** LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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Marin Healthcare District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2010

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 year ended June 30, 2010. 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, which are comprised of the 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 Assets; the Statement of Revenues, Expenses and Changes in Net Assets; 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 Assets

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 Assets"; 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 Assets

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 assets 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 lessor of the Marin General Hospital facility and is governed by a Board of Directors.

Marin Healthcare District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
 June 30, 2010

**Analytical Overview**

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

Table 1  
Condensed Statement of Net Assets

	6/30/2010	6/30/2009
Current and other assets	\$ 6,844,550	\$ 3,688,799
Capital assets, net of accumulated depreciation	7,577,779	20,406,926
Total assets	14,422,329	24,095,725
Long-term debt and other long-term liabilities	4,892,439	18,158,306
Other liabilities	4,150,940	2,452,641
Total liabilities	9,043,379	20,610,947
Net assets:		
Invested in capital assets, net of related debt	7,577,779	8,282,655
Unrestricted deficit	(2,198,829)	(4,797,877)
Total net assets	\$ 5,378,950	\$ 3,484,778

Summary

Total assets of the District have decreased this year by \$9,673,396, primarily related to the transfer of construction in progress to Marin General Hospital (MGH), offset by an increase in receivables from MGH.

Liabilities have decreased this year by \$11,567,568, primarily as a result of the transfer of the District's obligations with the County of Marin and ACS Healthcare Solutions to MGH.

Unrestricted Net Assets have increased \$2,599,048 due to higher net income in the current year along with the capitalization of transition expenses for hospital upgrades. The overall change to net assets is an increase of \$1,894,172, resulting in a June 30, 2010 balance of \$5,378,950.

Marin Healthcare District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
 June 30, 2010

Comparative Analysis of Current and Prior Year Activities and Balances

	<u>6/30/2010</u>	<u>6/30/2009</u>	<u>Increase (Decrease)</u>	
Operating revenues	\$ 3,142,792	\$ 591,335	\$ 2,551,457	Note 2
Operating expenses	<u>1,257,478</u>	<u>1,333,232</u>	<u>(75,754)</u>	Note 1
Net operating income (loss)	<u>\$ 1,885,314</u>	<u>\$ (741,897)</u>	<u>\$ 2,627,211</u>	
Non-operating revenues	\$ 8,858	\$ 27,490	\$ (18,632)	Note 2
Change in net assets	\$ 1,894,172	\$ (714,407)	\$ 2,608,579	

Note 1 – The decrease in operating expenses is related to a decrease in depreciation expense due to major assets becoming fully depreciated in the prior year in addition to an adjustment in the current year to estimated election expenses.

Note 2 – The increase in operating revenue relates to changes in the amortization of deferred lease revenue, an increase in settlement funds received, and the increase in billings to Sutter Health for expenses related to the Transfer Agreements between the District and Sutter Health.

**Capital Assets**

At the end of fiscal year 2010, the cost of infrastructure and other capital assets recorded in the District's financial statements was as shown in Table 2 below.

Table 2  
Capital Assets at Year End

	<u>Balance at June 30, 2010</u>
Land and improvements	\$ 2,243,596
Building	25,079,033
Construction in progress	-
Equipment	19,915,780
Less accumulated depreciation	<u>(39,660,630)</u>
Capital assets, net of accumulated depreciation	<u>\$ 7,577,779</u>

Marin Healthcare District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2010

**Debt Administration**

On June 30, 2010, the District transferred all of its long-term debt to MGH.

Economic Outlook and Major Initiatives

Economic factors do not have a direct influence on the District's budget. The current lease, effective for fiscal year 2011 and as amended by the Transfer Agreements, requires MGH to pay \$94,080 of rent quarterly, irrespective of MGH's net earnings. In addition, the District recognizes \$95,133 of deferred lease revenue on a monthly basis. Similarly, the Transfer Agreements require a set annual payment to support the District's expenses, irrespective of economic conditions. A Settlement Agreement and Mutual Release and related Transfer Agreement with Sutter Health and MGH were approved at the September 12, 2006 District Board meeting with formal agreements entered into on October 4, 2006. As part of those agreements, the District became the sole corporate member of MGH on June 30, 2010, and has assumed responsibility for MGH's seismic obligations.

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 Executive Director or the Chair of Management, Finance and Audit Committee, at 415-464-2090.

**REPORT OF INDEPENDENT AUDITORS**

To the Board of Directors  
**Marin Healthcare District**

We have audited the accompanying statement of net assets of Marin Healthcare District (the District) as of June 30, 2010 and the related statement of revenues, expenses, and changes in net assets and cash flows for the year then ended. The financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the District as of June 30, 2009, were audited by other auditors whose report dated January 8, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2010, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 1 through 4 is not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to this information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and we express no opinion on it.

*Moss Adams LLP*

Stockton, California  
September 29, 2011

**MARIN HEALTHCARE DISTRICT**

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**MARIN HEALTHCARE DISTRICT  
STATEMENTS OF NET ASSETS**

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**ASSETS**

	JUNE 30,	
	<u>2010</u>	<u>2009</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,745,405	\$ 3,669,310
Patient accounts receivable	50,723	-
Other receivables	4,082,477	8,489
	<u>5,878,605</u>	<u>3,677,799</u>
Deposits	42,500	11,000
Other long-term receivables	923,445	-
Capital assets, net of accumulated depreciation	7,577,779	20,406,926
	<u>\$ 14,422,329</u>	<u>\$ 24,095,725</u>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 2,459,278	\$ 974,367
Accrued expenses	487,728	73,554
Accrued election expense	62,336	176,061
Deferred rental income	-	87,061
Current portion of deferred lease revenue	1,141,598	1,141,598
	<u>4,150,940</u>	<u>2,452,641</u>
<b>LONG-TERM LIABILITIES</b>		
Transition loan and accrued interest	-	1,525,938
County loan and accrued interest	-	4,545,156
ACS loan	-	6,053,177
Deferred revenue – lease	4,892,439	6,034,035
	<u>4,892,439</u>	<u>18,158,306</u>
Total liabilities	<u>9,043,379</u>	<u>20,610,947</u>
<b>NET ASSETS (DEFICIT)</b>		
Invested in capital assets net of related debt	7,577,779	8,282,655
Unrestricted deficit	(2,198,829)	(4,797,877)
	<u>5,378,950</u>	<u>3,484,778</u>
Total liabilities and net assets	<u>\$ 14,422,329</u>	<u>\$ 24,095,725</u>

**MARIN HEALTHCARE DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

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	YEARS ENDED JUNE 30,	
	2010	2009
<b>OPERATING REVENUE</b>		
Lease income	\$ 1,520,337	\$ 341,335
Net patient service revenue	199,010	-
Settlement transition	1,423,445	250,000
Total operating revenues	3,142,792	591,335
<b>OPERATING EXPENSES</b>		
Depreciation	433,316	766,283
Transition expense	-	20,988
Administration	824,162	545,961
Total operating expenses	1,257,478	1,333,232
<b>OPERATING INCOME (LOSS)</b>	1,885,314	(741,897)
<b>NON-OPERATING REVENUE</b>		
Other revenue	8,858	27,490
Total non-operating revenue	8,858	27,490
<b>NET INCOME (LOSS)</b>	1,894,172	(714,407)
<b>NET ASSETS, beginning of year</b>	3,484,778	4,199,185
<b>NET ASSETS, end of year</b>	\$ 5,378,950	\$ 3,484,778

**MARIN HEALTHCARE DISTRICT**  
**STATEMENTS OF CASH FLOWS**

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	YEARS ENDED JUNE 30,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from tenants	\$ 291,680	\$ 336,991
Receipts from patients	150,626	-
Receipts from settlement	500,000	250,000
Payments to employees	(164,780)	(37,604)
Payments to suppliers and others	(2,061,687)	(498,758)
Net cash from operating activities	<u>(1,284,161)</u>	<u>50,629</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital asset purchases	(19,894,206)	(9,471,476)
Loan proceeds	21,370,802	10,920,521
Loan payments	(2,125,198)	-
Net cash from capital and related financing activities	<u>(648,602)</u>	<u>1,449,045</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest earned	<u>8,858</u>	<u>27,490</u>
Net cash from investing activities	<u>8,858</u>	<u>27,490</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(1,923,905)	1,527,164
CASH AND CASH EQUIVALENTS, beginning of year	<u>3,669,310</u>	<u>2,142,146</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,745,405</u>	<u>\$ 3,669,310</u>

**MARIN HEALTHCARE DISTRICT  
STATEMENTS OF CASH FLOWS**

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	YEARS ENDED JUNE 30,	
	2010	2009
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 1,885,314	\$ (741,897)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation	433,316	766,283
Changes in certain assets and liabilities:		
Prepaid items	(31,500)	(6,000)
Patient accounts receivable	(50,723)	-
Other receivables	(4,077,271)	(8,489)
Accounts payable	1,484,912	-
Deferred rental income	(1,228,657)	4,145
Accrued expenses	300,448	36,587
Net cash from operating activities	\$ (1,284,161)	\$ 50,629

**NON-CASH CAPITAL FINANCING ACTIVITY:**

On June 30, 2010, the District transferred a total of \$29,361,656 in long-term debt and \$32,290,037 in construction in progress to MGH, a California non-profit public benefit corporation, as part of the transfer of control (Note 6).

# MARIN HEALTHCARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1 – BASIS OF PRESENTATION AND ACCOUNTING POLICIES

**Reporting entity** – Marin Healthcare District (the District) is a political subdivision of the state of California. District directors are elected officials whose sole mission is to promote the health and welfare of the residents of the communities served by the District. The District operated the Marin General Hospital facility (the Hospital facility) until 1985, when it reorganized in compliance with local hospital district law of the state of California.

The District's principal asset is hospital property, plant, and equipment. The hospital 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, and radiology and laboratory services. The hospital facility is leased to MGH.

The District was the sole member of Marin General Hospital Foundation (the Foundation), a California not-for-profit public benefit corporation whose mission is to inspire philanthropy for the benefit of MGH, effective as of January 1, 2009. The Foundation's bylaws were amended such that MGH became the sole member of the Foundation effective as of June 30, 2010. The Foundation is consolidated with MGH for financial reporting purposes and correspondingly is not included in the District reporting entity for either period presented.

In addition to overseeing MGH's compliance with the lease agreement, the District is 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 includes a healthcare clinic (the Clinic). The District formed the Clinic, pursuant to California Health and Safety Code Section 1206(b), in 2010. The Clinic contracts with physicians to provide health care services within the District's geographic boundaries. The Clinic's operations were not significant in 2010.

**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.

# MARIN HEALTHCARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

**Accounting standards** – In compliance with Governmental Accounting Standards Board (GASB) Statement No. 20, the District has chosen to apply all applicable GASB pronouncements and all Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

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 assets 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 assets** – Net assets is the excess of all the District's assets over all its liabilities, regardless of fund. Net assets are divided into captions under GASB Statement No. 34. These captions apply only to net assets, which is determined only at the government-wide level, and are described below:

*Invested in capital, net of related debt:* the portion of the net assets 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 assets 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 assets.

*Unrestricted:* the portion of net assets 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.

**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

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

**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.

**Revenue recognition** – The District recognizes lease income and reimbursement of operating expenses when earned. The District derives substantially all of its revenue 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% (Note 4). Operating losses are caused by depreciation expense of property, plant, and equipment in excess of the annual rent revenue.

**Operating revenues and expenses** – The District’s statement of revenues, expenses, and changes in net assets 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 Clinic. 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.

**New accounting pronouncements** – In December 2010, GASB issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Contained in Pre-November 30, 1989 and AICPA Pronouncements*, which incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This pronouncement is effective for periods beginning after December 15, 2011.

**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.

**Reclassifications** – Certain reclassifications have been made to prior year balances to conform to the current year presentation.

**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

**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, 2010 the estimated market value of the pool (including accrued interest) was \$26,853,337. The District's proportionate share of that value is \$295,563.



# MARIN HEALTHCARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### 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, 2009	Additions	Deletions	Balance, June 30, 2010
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	12,436,467	19,853,570	(32,290,037)	-
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	-	-	596,491
Parking improvements	40	781,404	-	-	781,404
Moveable equipment	3 – 20	1,090,728	40,636	-	1,131,364
Subtotal		59,634,240	19,894,206	(32,290,037)	47,238,409
Less accumulated depreciation		(39,227,314)	(433,316)	-	(39,660,630)
Capital assets, net of accumulated depreciation		<u>\$ 20,406,926</u>	<u>\$ 19,460,890</u>	<u>\$ (32,290,037)</u>	<u>\$ 7,577,779</u>

  

	Life (Years)	Balance, June 30, 2008	Additions	Deletions	Balance, June 30, 2009
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	-	12,436,467	-	12,436,467
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	-	-	596,491
Parking improvements	40	781,404	-	-	781,404
Moveable equipment	3 – 20	1,093,653	-	(2,925)	1,090,728
Subtotal		47,200,698	12,436,467	(2,925)	59,634,240
Less accumulated depreciation		(38,463,956)	(766,283)	2,925	(39,227,314)
Capital assets, net of accumulated depreciation		<u>\$ 8,736,742</u>	<u>\$ 11,670,184</u>	<u>\$ -</u>	<u>\$ 20,406,926</u>

The District's property, plant, and equipment are leased to and used exclusively by MGH. Depreciation expense for the years ended June 30, 2010 and 2009 was \$433,316 and \$766,283, respectively.

**MARIN HEALTHCARE DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 4 – 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 Transfer Agreements (Note 5), the annual rent payments comprise capital expenditures made by MGH and quarterly payments of approximately \$91,000 for 2010. 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 \$6,034,037 and \$7,175,633 as of June 30, 2010 and 2009, respectively.

The deferred lease revenue will be amortized over the remaining term of the lease, which ends on December 1, 2015. Future amortization of deferred lease revenue is as follows:

<u>Fiscal Year End</u>	<u>Amortization</u>	<u>Cash Payment</u>	<u>Total</u>
2011	\$ 1,141,598	\$ 376,322	\$ 1,517,920
2012	1,141,598	395,138	1,536,736
2013	1,141,598	414,895	1,556,493
2014	1,141,598	435,640	1,577,238
2015	1,141,598	457,422	1,599,020
2016	<u>326,047</u>	<u>200,122</u>	<u>526,169</u>
Total	<u>\$ 6,034,037</u>	<u>\$ 2,279,539</u>	<u>\$ 8,313,576</u>

**Capital improvement payments** – In addition to the capital obligation described under annual rental payments, the lease agreement, as amended by the Transfer Agreements, required MGH to make minimum annual capital expenditures (buildings and equipment) during the settlement period. The obligation was approximately \$2.90 million and \$2.77 million for the years ended June 30, 2010 and 2009, respectively.

**NOTE 5 – SETTLEMENT**

In June 2005, MGH, which was operated by and under the control of Sutter Health, a northern California-based not-for-profit integrated health care system (Sutter), filed a lawsuit for declaratory relief against the District. At issue was whether the lessor or the lessee was responsible for the seismic upgrade of the Hospital Facility as required by California Senate Bill 1953, enacted in 1994 (the Hospital Seismic Upgrade Act).

## **MARIN HEALTHCARE DISTRICT NOTES TO FINANCIAL STATEMENTS**

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### **NOTE 5 – SETTLEMENT (CONTINUED)**

The parties signed a settlement agreement (Settlement Agreement) dated October 4, 2006. The Settlement Agreement incorporates a transfer agreement and an interim funding agreement (collectively, Transfer Agreements) that describe contractual rights and obligations of the parties with respect to the Transfer through which the District became the sole corporate member of MGH on June 30, 2010 (the Transfer). Under the Transfer Agreements, the District assumed full responsibility and all financial liability associated with pre-transfer compliance with the Hospital Seismic Upgrade Act (SB 1953), including necessary extensions for compliance. The deadline for compliance with SB 1953 is January 1, 2015. As part of that transfer of control, MGH assumed all liabilities of the District related to the Transfer Agreements. As part of the transfer of control, the District and MGH were required to replace the hospital's information technology system and other programs and contracts such as major purchasing agreements, managed care agreements, and insurance. These items were purchased and installed in 2010.

In 2010, the District made a loan of \$1,081,405 to a Medical Foundation that was formed by MGH and a local physician's group. The Medical Foundation's purpose is establishing, operating and maintaining multi-specialty medical clinics. As of June 30, 2010, the District transferred the note receivable due from the Medical Foundation to MGH who has recorded the investment as a beneficial interest asset.

As of June 30, 2010, the District had a receivable due from MGH of \$4,057,181 relating to the Transfer and the formation of the Medical Foundation.

The Transfer Agreements allow, and the District has created, an appointed subsidiary operating Board of Directors (Board) to provide oversight and run the day to day operations of MGH after the District becomes the sole corporate member of MGH. The Board has the sole authority to operate the hospital.

### **NOTE 6 – LOANS PAYABLE AND PURCHASE OBLIGATION**

Pursuant to the Interim Funding Agreement executed along with the Transfer Agreements on October 4, 2006, the District has received funding from Sutter for the establishment of a transition team to implement the Transfer Agreements. These agreements relate to the resolution of legal proceedings from June 30, 2005. Under the Interim Funding Agreement, the District has received \$500,000 on July 1 and January 1 of each year January 2007 through 2010. In addition, as of the Transfer, the District was responsible for executing a promissory note to pay back one half of all amounts provided under the Interim Funding Agreement plus interest at the prime rate plus two percent. The District had accrued \$1,525,938 in principal and interest due under this arrangement at June 30, 2009. Total principal and interest payments of \$2,125,198 were made under this arrangement in June 2010 upon transfer, and the obligation is considered satisfied in full.

On November 8, 2008, the District entered into a loan agreement with the County of Marin for an amount up to \$20,000,000. The funds were needed to make preparation for the Transfer. The interest rate is prime plus one percent. The term of the loan will end no later than 75 days after the Transfer date, or no later than September 13, 2010. The District had \$4.5 million outstanding under this arrangement at June 30, 2009 and borrowed another \$8.0 million during 2010. That amount outstanding (\$12.5 million), along with accrued interest, was transferred to MGH as a hospital obligation upon transfer of control. As of June 30, 2010, the District did not have any amounts outstanding under this arrangement.

**NOTE 6 – LOANS PAYABLE AND PURCHASE OBLIGATION (CONTINUED)**

The District entered into a loan agreement with ACS Healthcare Solutions for the implementation of information technology upgrades to Marin General Hospital. The District is contractually committed for up to \$14,000,000, which may be increased through change orders prior to the Hospital transfer date. As of June 30, 2010 and 2009, the outstanding balance of the loan is \$0 and \$6,053,177, respectively. This obligation was transferred to MGH as a hospital obligation upon transfer of control.

In June 2010, the District borrowed \$2,000,000 from the Foundation. The loan bears an interest rate of 6% per annum. The outstanding balance of \$2,000,000, along with accrued interest, was transferred to MGH as a hospital obligation upon transfer of control. As of June 30, 2010, the District did not have any amounts outstanding under this arrangement.

**NOTE 7 – COMMITMENTS**

**Compliance with the Hospital Seismic Upgrade Act** – Pursuant to settlement, the District became the sole corporate member of MGH as of June 30, 2010. Pursuant to the Transfer Agreements, the District has assumed full responsibility and all financial liability for compliance SB 1953. The District estimates seismic architectural and engineering costs of approximately \$35,000,000.

**Transfer Agreement** – The Transfer Agreement excluded certain IT systems currently provided to MGH by Sutter and other specific assets from remaining with MGH after the Transfer. The District was responsible for replacing such information systems, including contracts, hardware, software applications, and licenses necessary for hospital operations.

**Insurance** – The Transfer Agreement terminated the lessee’s business and facilities insurance as of the transfer date. The District is responsible for obtaining and initially paying for business and facilities insurance coverage for MGH and hospital facility. The District caused MGH to reimburse the District for the costs of such replacement insurance post transfer.

**NOTE 8 – CONTINGENT LIABILITIES**

**Pending litigation** – The District and MGH have alleged that Sutter has breached its fiduciary duty to MGH, as well as other breaches of the Transfer Agreements (Note 5). Sutter has filed certain counterclaims against the District and MGH. The parties are currently in arbitration relating to the claims and counterclaims. The likelihood of adverse outcome related to these matters at this time cannot be estimated; however, management believes that the ultimate resolution will not have a materially adverse effect on the District’s financial position. The District has \$923,445 due from Sutter as of June 30, 2010.

# MARIN HEALTHCARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 9 – OPERATING LEASES

The District and the Clinic lease office facilities under a non-cancelable operating lease. The total cost for the leases were \$175,084 for the fiscal year ended June 30, 2010. The future minimum lease payments were as follows:

<u>Years Ending June 30.</u>	<u>Amount</u>
2011	\$ 192,050
2012	133,704
2013	<u>59,590</u>
	<u>\$ 385,344</u>

### NOTE 10 – MANAGEMENT SERVICES AGREEMENT AND SUBSEQUENT EVENTS

The District entered into a management services agreement with MGH effective June 30, 2010. The agreement requires that the District’s senior management team, legal counsel, and consultants provide MGH with services. In consideration of the service provided, MGH would reimburse the District for costs incurred. The agreement terminates on June 30, 2011. Effective July 1, 2011, the District’s senior management team became employees of MGH and will provide management services to the District on a contract basis.