Report of Independent Auditors
and Financial Statements

Marin Healthcare District

June 30, 2012 and 2011

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, 2012, 2011, and 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 years ended June 30, 2012, 2011, and 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. 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 sole member of Marin General Hospital (MGH) and is governed by a publicly-elected Board of Directors.

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

	6/30/2012	6/30/2011	6/30/2010
Current and other assets	$ 6,287,637	$ 4,321,579	$ 6,844,550
Capital assets, net of accumulated depreciation	7,685,188	7,234,710	7,577,779
Total assets	13,972,825	11,556,289	14,422,329
Current liabilities	3,291,712	1,485,629	4,150,940
Long-term debt and other long-term liabilities	4,448,783	3,750,843	4,892,439
Total liabilities	7,740,495	5,236,472	9,043,379
Net assets:			
Invested in capital assets, net of related debt	5,437,507	7,234,710	7,577,779
Unrestricted net assets (deficiiency)	794,823	(914,893)	(2,198,829)
Total net assets	$ 6,232,330	$ 6,319,817	$ 5,378,950

Summary

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. Total assets decreased by 20% or $2,866,040 at 6/30/2011 compared to 6/30/2010, primarily related to the reduction in receivables from MGH.

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. Liabilities decreased by 42% or $3,806,907 at 6/30/2011 compared to 6/30/2010, as a result of the reduction of accounts payable and the transfer of employee-related liabilities to MGH. Effective July 1, 2011, the District's senior management team became employees of MGH.

The overall change to net assets is a decrease of $87,487, resulting in a June 30, 2012 balance of $6,232,330.

Comparative Analysis of Current and Prior Year Activities and Balances

	6/30/2012	6/30/2011	6/30/2010
Operating revenues	$ 8,916,163	$ 2,495,341	$ 1,719,347
Operating expenses	10,666,683	2,473,342	1,257,478
Operating (loss) income	$ (1,750,520)	$ 21,999	$ 461,869
Non-operating revenues	$ 1,663,033	$ 918,868	$ 1,432,303
Change in net assets	$ (87,487)	$ 940,867	$ 1,894,172

The decreases in operating income are primarily due to the losses incurred from the expansion of the Clinics. The changes in non-operating revenues are primarily due to the related support from MGH.

Economic Outlook and Major Initiatives

The Hospital Facilities Seismic Act (SB 1953)

The District has assumed responsibility for compliance with the Hospital Seismic Upgrade Act (SB 1953). The District requested and received an extension to delay the requirements until 2015 and is requesting an extension to 2020.

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 Executive Director or the Chair of the 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 statements of net assets of Marin Healthcare District (the District) as of June 30, 2012 and 2011 and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. 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 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 audits provide 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, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 1 through 3 is not a required part of the financial statements, but is 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
November 20, 2012

FINANCIAL STATEMENTS

	JUNE 30, 2012	JUNE 30, 2011
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,324,747	$ 2,973,655
Patient accounts receivable, net of allowance for doubtful accounts of $180,837 and $19,547 in 2012 and 2011, respectively	1,826,922	253,510
Other receivables	645,845	76,523
Inventory	47,536	-
Total current assets	4,845,050	3,303,688
Deposits	612,700	107,200
Other long-term receivables	-	910,691
Capital assets, net of accumulated depreciation	7,685,188	7,234,710
Intangible assets, net of accumulated amortization	829,887	-
Total assets	$ 13,972,825	$ 11,556,289
LIABILITIES		
Current liabilities		
Accounts payable	$ 1,651,519	$ 311,031
Accrued expenses	28,050	1,800
Accrued election expense	62,400	31,200
Current portion of note payable	408,145	-
Current portion of deferred lease revenue	1,141,598	1,141,598
Total current liabilities	3,291,712	1,485,629
Note payable, net of current portion	1,839,536	-
Deferred lease revenue, net of current portion	2,609,247	3,750,843
Total liabilities	7,740,495	5,236,472
NET ASSETS		
Invested in capital assets, net of related debt	5,437,507	7,234,710
Unrestricted	794,823	(914,893)
Total net assets	6,232,330	6,319,817
Total liabilities and net assets	$ 13,972,825	$ 11,556,289

See accompanying notes.

	YEARS ENDED JUNE 30,	
	2012	2011
OPERATING REVENUE		
Net patient service revenue	$ 7,323,830	$ 959,423
Lease income	1,592,333	1,535,918
Total operating revenues	8,916,163	2,495,341
OPERATING EXPENSES		
Salaries and benefits	7,248,596	1,102,192
Rent	960,874	223,833
Purchased services	753,971	473,474
Depreciation and amortization	515,610	389,220
Supplies	435,954	112,297
Community communication and education	262,507	-
Insurance	129,046	20,761
Other	360,125	151,565
Total operating expenses	10,666,683	2,473,342
OPERATING (LOSS) INCOME	(1,750,520)	21,999
NON-OPERATING REVENUES (EXPENSES)		
Support from Marin General Hospital	2,571,034	917,115
Settlement agreement	(910,691)	-
Other revenue	2,690	1,753
Total non-operating revenue	1,663,033	918,868
NET (LOSS) INCOME	(87,487)	940,867
NET ASSETS, beginning of year	6,319,817	5,378,950
NET ASSETS, end of year	$ 6,232,330	$ 6,319,817

See accompanying notes.

	YEARS ENDED JUNE 30, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tenants	$ 450,737	$ 1,689,921
Receipts from patients	5,750,418	755,954
Payments to employees and physicians	(7,071,057)	(1,106,345)
Payments to suppliers and others	(194,366)	(66,882)
Net cash from operating activities	(1,064,268)	1,272,648
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital asset purchases	(43,721)	(46,151)
Principal payments for CAMSF-related note payable	(750,000)	-
Proceeds from loan for CAMSF asset acquisition	750,000	-
Principal payments for MMG-related note payable	(43,609)	-
Net cash from capital and related financing activities	(87,330)	(46,151)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from loan for MMPC retainer	500,000	-
Net cash from non-capital and related financing activities	500,000	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	2,690	1,753
Net cash from investing activities	2,690	1,753
NET CHANGE IN CASH AND CASH EQUIVALENTS	(648,908)	1,228,250
CASH AND CASH EQUIVALENTS, beginning of year	2,973,655	1,745,405
CASH AND CASH EQUIVALENTS, end of year	$ 2,324,747	$ 2,973,655

See accompanying notes.

	YEARS ENDED JUNE 30,	
	2012	2011
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating (loss) income	$ (1,750,520)	$ 21,999
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Depreciation and amortization	515,610	389,220
Changes in certain assets and liabilities:		
Patient accounts receivable	(1,573,412)	(202,787)
Deposits and other receivables	1,487,712	4,871,123
Accounts payable	1,340,488	(2,148,247)
Other long-term liabilities	(1,141,596)	(1,141,596)
Accrued expenses	57,450	(517,064)
Net cash from operating activities	$ (1,064,268)	$ 1,272,648
SUPPLEMENTAL NON-CASH ACTIVITIES INFORMATION		
Acquisition of clinics through notes payable	1,866,290	-
Loan forgiveness from Marin General Hospital	(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, and 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 eight 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.

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

Accounting standards (continued) – 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.

Asset impairment – The District evaluates the carrying value of its long-lived 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, 2012 and 2011.

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).

Patient service revenue and credit concentrations – The District's patient service revenues is 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.

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

	JUNE 30,	
	2012	2011
Medicare	40%	25%
Medi-Cal	11%	23%
Commercial	32%	40%
Self-pay	14%	8%
Other	3%	4%
	100%	100%

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

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 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 District is currently evaluating the impact of the adoption of GASB No. 61 for the fiscal year ending June 30, 2013.

Reclassifications – Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation. There is no impact to the change in net assets in the 2011 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, 2012 and 2011 the estimated market value of the pool (including accrued interest) was $27,101,652 and $26,990,453, respectively. The District's proportionate share of that value is $297,857 and $297,007 as of June 30, 2012 and 2011, 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, 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

	Life (Years)	Balance, June 30, 2010	Additions	Deletions	Balance, June 30, 2011
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	-	-	596,491
Parking improvements	40	781,404	-	-	781,404
Moveable equipment	3 – 20	1,131,364	46,151	-	1,177,515
Total capital assets		47,238,409	46,151	-	47,284,560
Less accumulated depreciation		(39,660,630)	(389,220)	-	(40,049,850)
Capital assets, net of accumulated depreciation		$ 7,577,779	$ (343,069)	$ -	$ 7,234,710

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, 2011	Additions	Deletions	Balance, June 30, 2012
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)	-	(28,617)
Intangibles, net of accumulated amortization		$ -	$ 829,887	$ -	$ 829,887

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 $99,000 and $94,000 for 2012 and 2011, 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 $3,750,845 and $4,892,441 as of June 30, 2012 and 2011, 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
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	326,049	200,122	526,171
Total	$ 3,750,843	$ 1,508,079	$ 5,258,922

NOTE 6 – DEBT AND ACQUISITION

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

	Balance, June 30, 2011	Increases	Decreases	Balance, June 30, 2012
Note payable from CAMSF	$ -	$ 1,750,000	$ (750,000)	$ 1,000,000
Note payable from MGH	-	1,250,000	(75,000)	1,175,000
Note payable from Marin Medical Group	-	116,290	(43,609)	72,681
	$ -	$ 3,116,290	$ (868,609)	$ 2,247,681

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. 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.

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,	Amount
2013	$ 408,145
2014	364,536
2015	350,000
2016	850,000
2017	275,000
Thereafter	-
	$ 2,247,681

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Compliance with the Hospital Seismic Upgrade Act – The District has assumed responsibility for compliance with the Hospital Seismic Upgrade Act (SB 1953). The District requested and received an extension to delay the requirements until 2015 and is requesting an extension to 2020.

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 $120,000.

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.

NOTE 8 – RELATED PARTY TRANSACTIONS

The following transactions are conducted with affiliated entities:

Effective July 1, 2011, the District's senior management team became employees of MGH and provide management services to the District.

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 $2,218,953 and $453,538 to the District for the operation of the Clinics in 2012 and 2011, 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 $583,435 and $76,523, as of June 30, 2012 and 2011, respectively, included in the statements of net assets.

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 $960,874 for the fiscal year ended June 30, 2012. The future minimum lease payments were as follows:

Years ending June 30,	Amount
2013	$ 1,043,347
2014	598,076
2015	958,105
2016	520,867
2017	40,198
Thereafter	-
	$ 3,160,593

NOTE 10 – SUBSEQUENT EVENTS

The District and MGH have alleged that Sutter Health, a northern California-based not-for-profit integrated health system (Sutter), has breached its fiduciary duty to MGH, as well as other breaches of contractual rights and obligations. Sutter has 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 has written off $910,691 of related intercompany receivables.