

**MARIN HEALTHCARE DISTRICT
CORTE MADERA, CALIFORNIA**

**BASIC
FINANCIAL STATEMENTS**

JUNE 30, 2008

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1
Financial Statements:	
Management's Discussion and Analysis	2-4
Statements of Net Assets	5
Statements of Revenues, Expenses, and Changes in Net Assets	6
Statements of Cash Flows	7
Notes to Basic Financial Statements	8-13

INDEPENDENT AUDITORS' REPORT

Board of Directors
Marin Healthcare District
Corte Madera, California

We have audited the accompanying basic financial statements of the business-type activities and the major fund of Marin Healthcare District as of June 30, 2008 and for the fiscal year then ended, as listed in the table of contents. These basic financial statements are the responsibility of Marin Healthcare District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year summarized information has been derived from Marin Healthcare District's June 30, 2007 financial statements and, in our report dated October 10, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the major fund of Marin Healthcare District as of June 30, 2008, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

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



R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
November 17, 2008

Marin Healthcare District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

This section of Marin Healthcare District's (the District's) basic financial statements presents management's overview and analysis of the financial activities of the organization for the fiscal year ended June 30, 2008. We encourage the reader to consider the information presented here in conjunction with the financial statements as a whole.

Introduction to the Basic 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 basic 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 States 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 basic 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 organization.

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 organization 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 Flows:

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 that gross rather than net amounts were presented for the year's activities.

Notes to the Basic Financial Statements:

This additional information is essential to a full understanding of the data reported in the basic 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, 2008

Analytical Overview

A. Business-type Activities

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets present a summary of the District's business-type activities that are composed of the District's Enterprise fund.

Table 1
Business-type Net Assets

	6/30/08	6/30/07
Current and other assets	\$ 2,147,146	\$ 1,926,789
Capital assets, net of accumulated depreciation	8,736,742	9,839,908
Total assets	\$10,883,888	11,766,697
Long term debt outstanding	7,537,385	9,875,442
Other liabilities	413,853	158,962
Total liabilities	7,951,238	10,034,404
Net assets:		
Invested in capital assets	8,736,742	9,839,908
Unrestricted	(5,804,092)	(8,107,615)
Total net assets	\$ 2,932,650	\$ 1,732,293

Summary

Total assets of the District have decreased this year by \$882,809, primarily related to current year depreciation charges on capital assets.

Liabilities have decreased this year by \$2,083,166, as a result of the reduction of deferred lease revenue.

Unrestricted Net Assets have increased \$2,303,523 due to the increase in deferred lease revenue. The overall change to Net Assets is an increase of \$1,200,357, resulting in a June 30, 2008 balance of \$2,932,650.

Comparative Analysis of Current and Prior Year Activities and Balances

	6/30/08	6/30/07	Increase (Decrease)	
Operating revenues	\$ 4,241,889	\$ 1,961,024	\$ 2,280,865	Note 2
Operating expenses	3,121,835	1,988,451	1,133,384	Note 1
Net operating income	\$ 1,120,054	\$ (27,427)	\$ 1,147,481	
Non operating revenues (expenses)	\$ 80,303	\$ 1,885,467	\$ (1,805,164)	Note 2
Change in net assets	\$ 1,200,357	\$ 1,858,040	\$ (657,683)	

Note 1 – The increase in operating expenses is related to the cost of transition related to the settlement agreement and an increase in depreciation charges.

Note 2 – The increase relates to the increase in recognition of deferred lease income due to the settlement agreement with Sutter Hospital.

Marin Healthcare District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

Capital Assets

At the end of fiscal year 2008, 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

	Balance at June 30, 2008
<u>Business-type activities</u>	
Land and improvements	\$ 2,243,596
Building	25,079,033
Equipment	19,878,069
Less: accumulated depreciation	<u>(38,463,956)</u>
Business-type activity capital assets, net	<u>\$ 8,736,742</u>

Detail on capital assets, current year additions and construction in progress can be found in Note 3.

Debt Administration

The District does not currently use debt to finance operations.

Economic Outlook and Major Initiatives

Economic factors do not have a direct influence on the District's budget. The current lease requires Marin General Hospital Corporation to pay \$1,500,000 of rent annually irrespective of the hospital's net earnings. Similarly, the litigation settlement requires a set annual payment irrespective of economic conditions. A settlement agreement was reached at the September 12, 2006 District Board meeting with a formal agreement entered into on October 4, 2006. In the settlement agreement it was noted the lease with the Marin General Hospital Corporation (MGHC) will be terminated no later than July 1, 2010. The District will be responsible for approximately \$35,000,000 in information technology and seismic architectural and engineering cost for to the Hospital properties.

Contacting the District's Financial Management

This comprehensive Annual 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 Staff or the Chair of Management, Finance and Audit Committee, at 415-927-5755.

Marin Healthcare District
STATEMENTS OF NET ASSETS
 June 30, 2008
 (With Comparative Totals for June 30, 2007)

	2008	2007
<u>ASSETS</u>		
Current assets:		
Cash and investments	\$ 2,142,146	\$ 1,923,439
Total current assets	2,142,146	1,923,439
Prepaid items	5,000	3,350
Property, plant, and equipment, net of accumulated depreciation	8,736,742	9,839,908
Total assets	10,883,888	11,766,697
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	127,648	40,673
Accrued election expense	203,289	118,289
Deferred rental income	82,916	-
Current portion of deferred lease revenue	3,166,817	3,166,814
Total current liabilities	3,580,670	3,325,776
Long term liabilities:		
Sutter transition loan	1,203,750	375,000
Deferred revenue - lease	3,166,818	6,333,628
Total liabilities	7,951,238	10,034,404
Net assets (deficit):		
Invested in capital assets	8,736,742	9,839,908
Unrestricted	(5,804,092)	(8,107,615)
Total net assets (deficit)	\$ 2,932,650	\$ 1,732,293

The accompanying notes are an integral part of these financial statements.

Marin Healthcare District
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2008
(With Comparative Totals for the Year Ended June 30, 2007)

	2008	2007
Operating revenue:		
Lease income-Marin General Hospital Corporation		
Minimum cash payment	\$ 325,082	\$ 309,601
Required capital payment	3,166,807	1,199,173
Total lease income	3,491,889	1,508,774
Reimbursement of operating expenses-Marin General Hospital Corporation	-	77,250
Settlement transition	750,000	375,000
Total operating revenue	4,241,889	1,961,024
Operating expenses:		
Depreciation	1,103,166	798,299
Seismic study expense	-	4,499
Transition expense	1,552,482	518,194
Administration	466,187	667,459
Total operating expense	3,121,835	1,988,451
Operating income (loss)	1,120,054	(27,427)
Non-operating revenue (expense):		
Proceeds from property sale and use of property	-	1,829,482
Interest revenue	80,303	55,985
Total non-operating revenue (expense)	80,303	1,885,467
Net income (loss)	1,200,357	1,858,040
Net assets (deficit), beginning of period	1,732,293	(125,747)
Net assets (deficit), end of period	\$ 2,932,650	\$ 1,732,293

The accompanying notes are an integral part of these financial statements.

Marin Healthcare District
STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2008
(With Comparative Totals for the Year Ended June 30, 2007)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Receipts from tenants	\$ 1,157,998	\$ 761,851
Payments to employees	(226,960)	(169,208)
Payments to suppliers	<u>(1,621,384)</u>	<u>(1,350,127)</u>
Net cash provided (used) by operating activities	<u>(690,346)</u>	<u>(757,484)</u>
Cash flows from capital and related financing activities:		
Proceeds from sale	<u>-</u>	<u>1,751,923</u>
Net cash provided (used) by non-capital financing activities	<u>-</u>	<u>1,751,923</u>
Cash flows from non-capital financing activities:		
Loan proceeds	<u>828,750</u>	<u>375,000</u>
Net cash provided (used) by non-capital financing activities	<u>828,750</u>	<u>375,000</u>
Cash flows from investing activities:		
Rental income	-	77,560
Interest earned	<u>80,303</u>	<u>55,985</u>
Net cash provided by investing activities	<u>80,303</u>	<u>133,545</u>
Net increase (decrease) in cash and cash equivalents	218,707	1,502,984
Cash and cash equivalents - beginning of period	<u>1,923,439</u>	<u>420,455</u>
Cash and cash equivalents - end of period	<u>\$ 2,142,146</u>	<u>\$ 1,923,439</u>
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:		
Operating income (loss)	\$ 1,120,054	\$ (27,427)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	1,103,166	798,299
Required capital payment	(3,166,807)	(1,199,173)
Changes in certain assets and liabilities:		
Prepaid items	(1,650)	(3,350)
Accounts payable	86,975	(114,691)
Deferred rental income	82,916	
Due to Sutter VNA and Hospice	-	(225,000)
Accrued election expense	<u>85,000</u>	<u>13,858</u>
Net cash provided (used) by operating activities	<u>\$ (690,346)</u>	<u>\$ (757,484)</u>

The accompanying notes are an integral part of these financial statements.

Marin Healthcare District
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - ORGANIZATION

Marin Healthcare District (the District) is a political subdivision of the State of California; it is the lessor of the Marin General Hospital Facility and is governed by a Board of Directors. The District operated the hospital facility until December 1, 1985, at which time the District re-organized in compliance with local hospital district law of the State of California and agreed to lease the hospital facility to Marin General Hospital Corporation (the Hospital Corporation), a California nonprofit public benefit corporation.

The lessee is a general acute-care hospital located in Marin County that provides both inpatient and outpatient healthcare services. The Hospital Corporation inpatient facilities consist of medical-surgical, pediatrics, maternity, nursery, intensive care, coronary, psychology, radiology and laboratory care services.

As further described in Note 5, the District leases the hospital facility to the Hospital Corporation for a term of 30 years. During the term of this lease, the District derives substantially all of its revenue from the lease obligation.

The District incurs operating losses due to excess operating expenses (principally depreciation) over the annual rent of \$1,500,000. The depreciation expense is significant in the early years of the lease, due to the shorter life of equipment. In September 1999, the parties entered into a settlement agreement whereby the District receives \$150,000 annually from the Hospital Corporation to cover administrative expenses.

In addition to providing oversight of the Hospital Corporation's compliance with the Lease Agreement, the District provides a community forum for discussion of local healthcare issues, promotes healthcare services in the community, and acts as an advocate for the public for quality, reasonably priced, healthcare services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The District is the only entity included in these basic financial statements.

B. Basis of Presentation and 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 this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. 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.

Marin Healthcare District
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation and Accounting (concluded)

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.

C. Budgetary Accounting

The District's procedures in establishing the budgetary data reflected in the financial statements are as follows:

The Management Finance and Audit Committee submit a proposed operating budget to the District's full Board for the fiscal year commencing the following July 1. The operating budget includes proposed expenses and the means of financing them. The Management Finance and Audit Committee and full District Board are open to public comment at scheduled board meetings. The budget is legally enacted through a District Board action.

D. Use of Estimates

The basic 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.

E. Cash and Cash Equivalents

Cash and investments are used in preparing the statement of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

F. Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets. Depreciation expense was \$1,103,166 for the year ended June 30, 2008. The threshold for capitalizing capital expenses is \$5,000.

G. 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 BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

H. Deferred Revenue-Lease

Deferred revenue represents capital expenditures by the Hospital Corporation in excess of the current commitment, which will be recognized as rental revenue in future years.

I. Revenue Recognition

The District recognizes lease income and reimbursement of operating expenses when earned.

NOTE 3 - 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 State Government Code.

	<u>2008</u>
Cash:	
Demand accounts	<u>\$ 1,857,028</u>

California Law requires banks and savings and loan institutions 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.

Custodial Credit Risk - Deposits:

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2008, \$1,820,287 of the District's bank balance of \$1,920,287 was exposed to custodial credit risk because it was uninsured and collateralized with securities held in the pledging financial institution's trust department or agent, but not in the District's name.

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

The District's investments are carried at fair value instead of cost, as required by U.S. generally accepted accounting principles. The District adjusts the carrying value of its investments to reflect their fair value at each fiscal year end only if material, and it includes the effects of these adjustments in income for that fiscal year.

Marin Healthcare District
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2008

NOTE 3 - CASH AND INVESTMENTS (concluded)

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 twenty-four hours notice. Financial statements for LAIF can be obtained from the California State Treasurer's Office: State Treasurer's Office, 915 Capitol Mall, Suite 110, Sacramento, CA 95814.

The management of the State of California Pooled Money Investment Account has indicated to the District that as of June 30, 2008 the carrying amount of the pool was \$69,955,386,488 and the estimated market value of the pool (including accrued interest) was \$70,154,701,610. The District's proportionate share of that value is \$285,118. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of structured notes, totaling \$6,113,006,000 and asset-backed securities totaling \$4,188,272,000. LAIF's (and the District's) exposure to risk (credit, market or legal) is not currently available.

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

The following is a summary of changes in property, plant and equipment during the years ended June 30:

	Life (years)	Balance June 30, 2007	<u>Additions</u>	<u>Deletions</u>	Balance June 30, 2008
Equipment	3-20	\$ 18,784,416	\$ -	\$ -	\$ 18,784,416
Hospital buildings	40	24,974,084	-	-	24,974,084
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
Movable equipment	3-20	<u>1,096,578</u>	<u>-</u>	<u>2,925</u>	<u>1,093,653</u>
Subtotal		47,203,623	<u>\$ -</u>	<u>\$ 2,925</u>	47,200,698
Less: accumulated depreciation		<u>(37,363,715)</u>			<u>(38,463,956)</u>
Property, plant and equipment, net		<u>\$ 9,839,908</u>			<u>\$ 8,736,742</u>

The District's property, plant and equipment are leased to and used exclusively, by the Hospital Corporation. Depreciation expense for the year ended June 30, 2008 was \$1,103,166.

Marin Healthcare District
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 5 - LEASE OF MARIN HEALTHCARE DISTRICT FACILITY

A. Annual Rental Payments

Effective December 1, 1985, the District leased the Marin General Hospital facility to the Hospital Corporation 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, rent is due in annual installments of \$1,500,000.

The annual rent payments comprise capital expenditures and a \$125,000 minimum cash payment. The minimum cash payment, which is payable in quarterly installments, increases annually by 5% throughout the lease term. The lessee has satisfied this provision of the lease for the year ended June 30, 2008.

Due to the significant capital investment required for the hospital modernization program completed in June 1989, the Hospital Corporation'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. As of June 30, 2008, the total deferred lease revenue was \$6,333,635.

The deferred lease revenue will be amortized over the remaining term of the lease ending no later than July 1, 2010 as noted in the settlement agreement dated October 4, 2006.

B. Capital Improvement Payments

In addition to the capital rental obligation described under annual rental payments, the lease agreement requires the Hospital Corporation to make minimum annual capital expenditures (buildings and equipment) during the lease term. The obligation was approximately \$2,640,000 for the year ended June 30, 2008. These assets automatically revert to the District upon termination of the lease. Accordingly, these assets are a part of the Hospital Corporation's financial statements, and are not included in the accompanying financial statements. Many of these assets will revert without payment by the District; however, reversion of certain assets may also include liabilities (including required payments by the District) related to such assets. The lessee has satisfied this provision of the lease for the year ended June 30, 2008.

NOTE 6 - RELATED PARTY TRANSACTIONS

Under its lease obligations, the Hospital Corporation is currently paying some of the operating expenses incurred by the District. The total amount of the operating expenses is minimal.

NOTE 7 - 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 three captions under GASB Statement 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 describes the portion of 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.

Marin Healthcare District
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 7 - NET ASSETS (concluded)

Restricted described 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. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes. The District has no restricted Net Assets.

Unrestricted describes the portion of Net Assets that is not restricted to use.

NOTE 8 - TRANSITION LOAN

The Hospital Corporation will provide the District with funding for the establishment of a transition team to implement the settlement agreement. The settlement agreement relates to the resolution of legal proceedings from June 30, 2005. The Hospital Corporation will pay the District \$250,000 on January 1, 2007 and \$500,000 on July 1 and January 1 of each year thereafter through the transfer date. The transfer date will be anytime during the period of January 1, 2009 through July 1, 2010. In addition, the District will be responsible to execute a promissory note to pay back one half of all amounts provided plus interest at the prime rate plus two percent. As of June 30, 2008, the District owes the Hospital Corporation \$1,203,750.

NOTE 9 - CONTINGENT LIABILITIES

The District is involved in various claims and litigation arising in the ordinary course of business. In the opinion of the District's Attorney, there is no pending litigation which is likely to have a material adverse effect on the financial position of the District.

A settlement agreement was reached at the September 12, 2006 District Board meeting with a formal agreement entered into on October 4, 2006. In the settlement agreement it was noted the lease with the Marin General Hospital Corporation (MGHC) will be terminated no later than July 1, 2010. In order for the Hospital to continue operations the District will be responsible for approximately \$35,000,000 in information technology and seismic architectural and engineering cost for the Hospital properties.

NOTE 10 - SUBSEQUENT EVENTS

On November 3, 2008 the District entered into a loan agreement with the County of Marin for an amount up to \$20,000,000. The funds will be needed to make preparations to take back control of the Hospital. The interest rate will be prime plus one percent. The term of the loan will end 75 days after the date of the transfer of the Hospital back to the District. The agreement also requires the creation of an appointed Subsidiary Operating Board to provide oversight and run the day to day operations of the Hospital.