

MARIN HEALTHCARE DISTRICT

REPORT ON AUDITS OF FINANCIAL STATEMENTS
for the years ended June 30, 2005 and 2004

MARIN HEALTHCARE DISTRICT

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Marin Healthcare District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

This section of Marin Healthcare District's (the District) basic financial statements presents management's overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. 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 (pages 2-11). 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 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 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 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.

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.

Marin Healthcare District
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2005

Table 1
Business-type Net Assets (in thousands)

	2005	2004
Cash and investments	\$ 478	\$ 290
Seismic expense reimbursement receivable	114	-
Capital assets, net of accumulated depreciation	<u>11,658</u>	<u>12,711</u>
Total assets	<u>12,250</u>	<u>13,001</u>
Other liabilities	<u>12,164</u>	<u>13,342</u>
Total liabilities	<u>12,164</u>	<u>13,342</u>
Net assets:		
Invested in capital assets	11,658	12,711
Unrestricted	<u>(11,572)</u>	<u>(13,052)</u>
Total net assets	<u>\$ 86</u>	<u>\$ (341)</u>

Summary

Total assets of the District have decreased this year by \$751,000. This classification is comprised of Current Assets, which increased overall by \$302,000. The increase relates to reimbursements receivable for seismic study expenses.

Liabilities have decreased this year, in this case by \$1,178,000, as a result of the reduction of the advance capital commitment contribution.

Unrestricted Net Assets have increased \$1,480,000. The overall change to Net Assets is an increase of \$427,000, resulting in a June 30, 2005 balance of \$86,000.

Change in Net Assets (in thousands)

	6/30/05	6/30/04	Increase (Decrease)	
Operating revenues	\$1,930	\$1,650	\$ 280	Note 1
Operating expenses	<u>1,508</u>	<u>1,653</u>	<u>(145)</u>	Note 2
Net operating income	422	(3)	425	
Nonoperating revenues (expenses)	<u>5</u>	<u>(93)</u>	<u>98</u>	Note 3
Change in net assets	<u>\$ 427</u>	<u>\$ (96)</u>	<u>\$ 523</u>	

Note 1 - The increase in operating revenues was due to reimbursements related to seismic study expenses.

Note 2 - The decrease in operating expenses related to a decrease in depreciation charges.

Note 3 - The increase relates to legal fees incurred the prior year.

Marin Healthcare District
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2005

B. Capital Assets

At the end of fiscal year 2005, 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 (in thousands)

	Balance at June 30, 2005
Business-type activities:	
Land	\$ 2,244
Building	25,079
Equipment	20,527
Less: accumulated depreciation	<u>36,192</u>
Business-type activity capital assets, net	<u>\$11,658</u>

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

C. Debt Administration

The District does not use debt to finance operations.

D. 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. As of June 30, 2005 preliminary discussions between the Hospital (lessee) and the District (lessor) about their future relationship had periodically taken place with no action taken.

E. 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 415-461-5700.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of Marin Healthcare District

We have audited the accompanying basic financial statements of the business-type activities and the major fund of the Marin Healthcare District as of June 30, 2005 and 2004, and for the years then ended. These basic financial statements are the responsibility of the District's management.

Our responsibility is to express an opinion on the financial position of the business-type activities and major fund of the Marin Healthcare District based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 basic financial statements referred to above present fairly, in all material respects, the financial position of Marin Healthcare District as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller and State regulations governing special districts.

Management's Discussion and Analysis is supplementary information required by the Government Accounting Standards Board, but is not part of the basic financial statements. We have applied certain limited procedures to this information, principally 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.

Burr, Pilger & Mayer, LLP

San Francisco, California
November 2, 2005

MARIN HEALTHCARE DISTRICT
STATEMENTS OF NET ASSETS
June 30, 2005 and 2004

ASSETS	<u>2005</u>	<u>2004</u>
	(in thousands)	
Current assets:		
Cash and investments	\$ 478	\$ 290
Seismic expense reimbursement receivable	<u>114</u>	<u>-</u>
Total current assets	592	290
Property, plant, and equipment, net of accumulated depreciation	<u>11,658</u>	<u>12,711</u>
Total assets	<u>\$ 12,250</u>	<u>\$ 13,001</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 15	\$ 11
Accrued election expenses	19	101
Due to Sutter VNA and Hospice	225	-
Deferred income	<u>-</u>	<u>106</u>
Total current liabilities	<u>259</u>	<u>218</u>
Deferred revenue-lease	<u>11,905</u>	<u>13,124</u>
Total liabilities	12,164	13,342
Net assets	<u>86</u>	<u>(341)</u>
Total liabilities and net assets	<u>\$ 12,250</u>	<u>\$ 13,001</u>

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

MARIN HEALTHCARE DISTRICT
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
for the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
	(in thousands)	
Operating revenue:		
Lease income—Marin General Hospital Corporation		
Minimum cash payment	\$ 281	\$ 267
Required capital payment	<u>1,219</u>	<u>1,233</u>
Total lease income	1,500	1,500
Reimbursement of operating expenses—Marin General Hospital Corporation	150	150
Reimbursement of seismic study expenses—Marin General Hospital Corporation	<u>280</u>	<u>-</u>
Total operating revenue	<u>1,930</u>	<u>1,650</u>
Operating expenses:		
Depreciation	1,052	1,284
Seismic study expenses	280	-
Administration	<u>176</u>	<u>368</u>
Total operating expenses	<u>1,508</u>	<u>1,653</u>
Excess of operating expenses over revenue	<u>422</u>	<u>(3)</u>
Nonoperating revenue (expense):		
Interest revenue	5	3
Other expenses	<u>-</u>	<u>(96)</u>
Total nonoperating revenue (expense)	<u>5</u>	<u>(93)</u>
Net income (loss)	427	(96)
Net assets, beginning of year	<u>(341)</u>	<u>(245)</u>
Net assets, end of year	<u>\$ 86</u>	<u>\$ (341)</u>

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

MARIN HEALTHCARE DISTRICT
STATEMENTS OF CASH FLOWS
for the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
	(in thousands)	
Cash flows from operating activities:		
Cash inflows:		
Cash received from lease income	\$ 280	\$ 267
Cash received from operating expense reimbursement	150	150
Cash received from seismic expense reimbursement	166	-
Cash received from interest revenue	5	3
Cash outflows:		
Legal fees	(96)	(215)
Seismic expenses	(280)	-
Other operating payments	<u>(37)</u>	<u>(88)</u>
Net cash provided by operating activities	188	117
Net cash provided by investing activities	-	-
Net cash provided by financing activities	<u>-</u>	<u>-</u>
Net increase in cash	188	117
Cash and cash equivalents, beginning of year	<u>290</u>	<u>173</u>
Cash and cash equivalents, end of year	<u>\$ 478</u>	<u>\$ 290</u>

The accompanying notes are an integral
part of these financial statements

MARIN HEALTHCARE DISTRICT
STATEMENTS NOTES TO FINANCIAL STATEMENTS

1. **Accounting Policies**

Description of Business

Marin Healthcare District (the District), a political subdivision of the State of California, is the lessor of the Marin General Hospital facility. The District operated the hospital facility until December 1, 1985, at which time the District reorganized 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 4, 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. Commencing in 2005 the amount paid to the District will increase annually by a Consumer Price Index factor with a minimum of 3% and a maximum of 5%.

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.

Accounting Method

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The District records revenue in part from lease income to an external user, and accordingly has chosen to present its financial statements using the reporting model for special-purpose governments engaged only in business-type activities.

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Board Statements No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Government*, No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*.

The District uses all applicable GASB pronouncements and all Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

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MARIN HEALTHCARE DISTRICT
STATEMENTS NOTES TO FINANCIAL STATEMENTS, Continued

1. **Accounting Policies**, continued

Net Assets

Net Assets are divided into separate captions under GASB Statement No. 34, and are described below:

Invested in Capital Assets describes the portion of Net Assets which 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. The District's Net Assets, Invested in Capital Assets at June 30, 2005 and 2004 were approximately \$11,658,000 and \$12,711,000, respectively.

Unrestricted describes the portion of Net Assets which is not restricted to use. The District's Unrestricted Net Assets at June 30, 2005 and 2004 were deficits of approximately \$11,572,000 and \$13,052,000, respectively.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid financial instruments with maturities of three months or less when purchased to be cash equivalents.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Depreciation is estimated by using the straight-line method over estimated useful lives of 40 years for buildings and 3 to 20 years for equipment. Upon sale or retirement of property, plant, and equipment, the related costs and accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is included in revenues and expenses.

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 (Note 4).

Revenue Recognition

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates used in preparing these financial statements include those used in calculating the carrying value of the District's property, plant, and equipment. Actual results could differ from those estimates.

Continued

MARIN HEALTHCARE DISTRICT

STATEMENTS NOTES TO FINANCIAL STATEMENTS, Continued

1. Accounting Policies, continued

Concentration of Credit Risk

Financial instruments that potentially subject the District to credit risk consist primarily of cash and cash equivalents. The District maintains cash and cash equivalents with commercial banks. At June 30, 2005 and 2004, the District had approximately \$128,000 and \$4,400 respectively, in excess of the federal depository insurance limit of \$100,000.

Classification of Current and Noncurrent Assets and Liabilities

The District considers assets to be current that can reasonably be expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within 12 months of the statement of net assets date. Liabilities that reasonably can be expected, as part of normal business operations, to be liquidated within 12 months of the statement of net assets date are considered to be current. All other assets and liabilities are considered to be noncurrent.

2. Cash and Cash Equivalents

Cash and cash equivalents included the following at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
	(in thousands)	
Operating accounts	\$228	\$ 45
Local agency investment fund (LAIF)	<u>250</u>	<u>245</u>
	<u>\$478</u>	<u>\$290</u>

Local Agency Investment Fund

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.

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.

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MARIN HEALTHCARE DISTRICT

STATEMENTS NOTES TO FINANCIAL STATEMENTS, Continued

2. **Cash and Cash Equivalents, continued**

The management of the State of California Pooled Money Investment Account has indicated to the District that as of June 30, 2005 and 2004 the carrying amount of the pool was \$60,503,473,770 and \$57,600,699,158 respectively, and the estimated market value of the pool (including accrued interest) was \$60,635,664,344 and \$57,536,996,461 respectively. The District's proportionate share of that value is \$249,949 and \$245,000 respectively. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of structured notes and asset-backed securities. LAIF's (and the District's) exposure to risk (credit, market or legal) is not currently available.

3. **Property, Plant and Equipment**

Property, plant and equipment at June 30, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Capital assets not being depreciated	(in thousands)	
Land, including improvements	<u>\$ 2,244</u>	<u>\$ 2,244</u>
Capital assets being depreciated		
Building	25,079	25,079
Equipment	<u>20,527</u>	<u>20,527</u>
Total capital assets being depreciated	<u>45,606</u>	<u>45,606</u>
Total capital assets	47,850	47,850
Less accumulated depreciation	<u>(36,192)</u>	<u>(35,139)</u>
Capital assets, net of accumulated depreciation	<u>\$ 11,658</u>	<u>\$ 12,711</u>

The District's property, plant, and equipment are leased to and used exclusively, by the Hospital Corporation (Note 4). Depreciation expense for the years ended June 30, 2005 and 2004 was \$1,052,200 and \$1,283,800, respectively.

4. **Lease of Marin Healthcare District Facility**

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 years ended June 30, 2005 and

Continued

MARIN HEALTHCARE DISTRICT

STATEMENTS NOTES TO FINANCIAL STATEMENTS, Continued

4. Lease of Marin Healthcare District Facility, continued

Annual Rental Payments, continued

2004. Under the terms of the lease, the minimum cash components of the annual rental payments from the Hospital Corporation for the next five fiscal years and thereafter are as follows:

Fiscal year ended June 30:	(in thousands)
2006	\$ 295
2007	310
2008	325
2009	340
2010	359
Thereafter	<u>2,272</u>
	<u>\$ 3,901</u>

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, 2005 and 2004, the total deferred lease revenue (in thousands) was \$11,905 and \$13,124, respectively.

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 \$2,877,000 for the year ended June 30, 2005 and \$2,740,000 for the year ended June 30, 2004 and will increase thereafter for inflation (not to exceed 5% per year). 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 years ended June 30, 2005 and 2004.

5. Related Party Transactions

The Hospital Corporation has floated revenue bonds totaling approximately fifty million dollars. If the Hospital Corporation is in default of the lease, the District can terminate the lease. If the lease is terminated the District, however, must pledge all revenues from the operation of the hospital as security for the payment of all the Hospital Corporation's bond obligations.

Continued

MARIN HEALTHCARE DISTRICT

STATEMENTS NOTES TO FINANCIAL STATEMENTS, Continued

5. **Related Party Transactions**, continued

Under its lease obligations, the Hospital Corporation is currently paying some of the operating expenses incurred by the District. Examples of expenses paid include supplies, telephone charges, office equipment, and business insurance premiums. Total expenses paid by the Hospital Corporation on behalf of the District for the years ended June 30, 2005 and 2004 were approximately \$11,000 and \$22,000 respectively. In addition, the Hospital Corporation paid the District's Directors' and Officers' liability insurance for the policy years ended March 25, 2005 and 2004. The Hospital Corporation also provides office space for the District.

6. **Employee Benefit Plan**

On August 14, 2001, the Marin Healthcare District passed a resolution creating the Miscellaneous Plan of the Marin Healthcare District (Plan), a single-employer defined benefit plan providing retirement, disability, and death benefits to plan participants and beneficiaries. The Plan is administered by the California Public Employees' Retirement System (CalPERS) and is subject to all the provisions of the Public Employees' Retirement Law.

The contribution requirements of plan members and the District are established and may be amended by the state legislature. Plan members are required to contribute 7.0% on their annual reportable earnings. The District is required to contribute at an actuarially determined rate; currently determined to be 25.1% of annual reportable payroll.

The District's annual pension cost to CalPERS for the years ended June 30, 2005 and 2004 was \$1,500 and \$17,500, respectively. The net pension obligation was zero for both years.

The annual required contribution was determined as part of the April 1, 2001 actuarial valuation using the entry age normal cost method. The actuarial assumptions include an 8.25% investment rate of return (net of expense) and projected salary increases of 3.75% per year. Both the investment rate of return and the projected salary increase include an inflation component of 3.5%.

As of July 2004, the District no longer had any permanent employees and as a result the employee benefit plan has been discontinued.

8. **Litigation Issues**

The District claimed that the lease should be void under Government Code §1090 and §1092, *Void-Contract*, due to conflict of interest issues. In August 1998, the Court dismissed the conflict of interest claim due to expiration of the statute of limitations. In October 1999, the District filed a Notice of Appeal with the California Court of Appeals in Sacramento, appealing the original dismissal of the claim. The court heard oral arguments in September 2002 and a decision was issued in November 2002, upholding the lower court's ruling. On December 23, 2002, the District filed a petition for review with the California Supreme Court. In early 2003, the California Supreme Court upheld the lower court's decision in favor of the Hospital Corporation.

Continued

MARIN HEALTHCARE DISTRICT

STATEMENTS NOTES TO FINANCIAL STATEMENTS, Continued

8. **Litigation Issues**, continued

On June 20, 2005 Marin General Hospital Corporation filed a complaint against the District in Superior Court, Marin County, seeking declaration that the District is obligated to perform and pay for seismic upgrades required by law. The complaint also seeks a declaration that the required seismic upgrades would interfere with the purpose of the lease, which is to provide a hospital facility. The District filed a cross complaint seeking declaration that the Hospital is obligated to perform the seismic upgrades, and a declaration defining the rights and duties of the parties in the event of a lease termination. The outcome of this suit is currently undetermined. Management's representation is that the District has paid approximately \$280,000 for seismic study expenses in the 2005 fiscal year, and per a signed agreement with the Hospital, the Hospital has agreed to reimburse all such expenses up to \$500,000. As of December 31, 2005 the Hospital had paid all the related claims that the District had submitted for reimbursement.

9. **Litigation Settlement**

Pursuant to the settlement agreement dated September 20, 1999, the District and the Hospital Corporation settled the claims arising from disputes as to the parties' respective rights and obligations under the lease and administration agreement. Commencing with the year beginning January 1, 1999, and for each year until the termination of the lease, the Hospital Corporation will pay to the District annually the sum of \$150,000 in equal quarterly installments, commencing January 1, 2000. As of December 1, 2005, this payment will be increased based on a percentage equal to the Consumer Price Index, not to exceed 5% or be less than 3% of the annual payment of the preceding year.

10. **Due to Sutter VNA and Hospice**

In 2004, Marin Home Care sold its assets to Sutter VNA and Hospice. In February 2005, the District received a \$225,000 check from Sutter VNA and Hospice relating to the District's reversionary interest in MHC Corporation. Per the District's attorney, control of MHC Corporation has to be obtained by the District prior to the District having a claim to this \$225,000 asset of MHC. Accordingly, the proceeds of the payment to the District have been classified as a liability due to Sutter VNA and Hospice.