

**EDEN TOWNSHIP
HEALTHCARE DISTRICT**
Castro Valley, California

Independent Auditor's Report, Management's
Discussion and Analysis,
Basic Financial Statements and Supplemental
Information

For the Years Ended June 30, 2011 and 2010



Certified Public Accountants.

**EDEN TOWNSHIP
HEALTHCARE DISTRICT**
Castro Valley, California

Independent Auditor’s Report, Management’s Discussion and Analysis,
Basic Financial Statements and Supplemental Information

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Eden Township Healthcare District
Castro Valley, California

We have audited the accompanying basic financial statements of Eden Township Healthcare District (District), a California political subdivision, as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the financial statements, the District is appealing a legal judgment against them. Legal counsel to the District has advised it has not determined that the possibility of failure of the appeal is remote, but has not otherwise expressed an opinion as to the possible success of the appeal. In management's opinion, the appeal will be successful. Nevertheless, it may be concluded that failure of the appeal is a reasonable possibility, and the judgment against the District will result in a reduction of net assets of \$19 million with a corresponding expense. The effect of other potential litigation regarding this matter cannot be estimated at this time.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion

or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The combining statement of net assets, combining statement of revenues, expenses and changes in net assets, and the combining statement of cash flows are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Macias Gini & Connell LLP

Walnut Creek, California

October 24, 2011

Management's Discussion and Analysis

EDEN TOWNSHIP HEALTHCARE DISTRICT

Management's Discussion and Analysis Required Supplementary Information (Unaudited)

This section of the Eden Township Healthcare District's (the "District") annual financial report includes some of management's insights and analysis of the District's financial performance for the years ended June 30, 2011 and 2010.

INTRODUCTION TO THE BASIC FINANCIAL STATEMENTS

The annual report consists of a series of financial statements, 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*. This standard is applicable to the District because it is a political subdivision of the State of California.

The financial statements include: the statements of net assets, the statements of revenues, expenses and changes in net assets and the statements of cash flows. These statements are supported in the annual report by the notes to the financial statements and this section. All sections should be considered together to obtain a complete understanding of the financial picture of the District.

Statements of Net Assets include all assets and liabilities. Assets and liabilities are reported on an accrual basis, as of the statement date.

Statements of Revenues, Expenses and Changes in Net Assets present the revenues earned and expenses incurred during the years then ended on an accrual basis.

Statements of Cash Flows present the inflows and outflows of cash, summarized by operating, capital and related financing and investing activities. The statements are prepared using the direct method of cash flows, and therefore, present gross rather than net amounts for the years' operating activities.

FINANCIAL OVERVIEW

A summary of key financial statement information is used as a basis for reviewing current year results in comparison with the prior years.

	As of June 30,		
	2011	2010	2009
ASSETS:			
Current assets	\$ 7,266,128	\$ 2,984,343	\$ 4,954,902
Other non-current assets	21,387,601	29,151,924	30,235,763
Capital assets	94,774,617	96,526,461	99,183,909
Total assets	<u>\$ 123,428,346</u>	<u>\$ 128,662,728</u>	<u>\$ 134,374,574</u>
LIABILITIES			
Current liabilities	\$ 6,821,377	\$ 6,817,991	\$ 55,799,158
Non-current liabilities	48,202,398	48,202,398	-
Total liabilities	<u>55,023,775</u>	<u>55,020,389</u>	<u>55,799,158</u>
NET ASSETS	<u>68,404,571</u>	<u>73,642,339</u>	<u>78,575,416</u>
Total liabilities and net assets	<u>\$ 123,428,346</u>	<u>\$ 128,662,728</u>	<u>\$ 134,374,574</u>

EDEN TOWNSHIP HEALTHCARE DISTRICT

Management's Discussion and Analysis Required Supplementary Information (Unaudited)

Net assets at June 30, 2011 decreased to \$68,404,571 from \$73,642,339 in 2010 due to various factors. Operating revenues increased \$61,338 and operating expenses decreased \$714,140 compared to 2010. In addition, net nonoperating revenue (expense) decreased by \$1,080,169 compared to 2010. For 2011 the District continued to operate at a loss.

Net assets at June 30, 2010 decreased to \$73,642,339 from \$78,575,416 in 2009 due to various factors. Operating revenues increased \$213,604 and operating expenses were down \$1,785,837 compared to 2009. In addition, net nonoperating revenue (expense) increased by \$1,540,002 compared to 2009. For 2010 the District continued to operate at a loss.

	2011	2010	2009
OPERATING RESULTS:			
Operating revenues:			
Rental income	\$ 3,215,788	\$ 3,159,857	\$ 2,994,078
Tenant reimbursements	466,099	460,692	412,867
	3,681,887	3,620,549	3,406,945
Operating expenses:			
Salaries and Benefits	\$ 180,489	\$ -	\$ -
Purchased services	1,938,913	1,995,372	1,356,241
Rental property operating and maintenance	1,221,688	1,100,653	1,099,636
Taxes	376,544	354,875	275,135
Grants to service providers	78,025	1,147,350	2,955,614
Amortization	381,688	329,919	330,027
Depreciation	3,892,361	3,855,679	4,553,032
	8,069,708	8,783,848	10,569,685
Operating loss	(4,387,821)	(5,163,299)	(7,162,740)
Net nonoperating revenues (expenses)	(849,947)	230,222	(1,309,780)
Change in net assets	(5,237,768)	(4,933,077)	(8,472,520)
Net assets, beginning of year	73,642,339	78,575,416	87,047,936
Net assets, end of year	\$ 68,404,571	\$ 73,642,339	\$ 78,575,416

For the year ended June 30, 2011, operating revenue increased to \$3,681,887 from \$3,620,549 in 2010. Rental income increased due to higher occupancy rates during the fiscal year.

Net nonoperating revenues (expenses) decreased by \$1,080,169 in 2011 due to a decrease in the change in fair value of investments of \$930,332 and no profit allocation from the San Leandro Surgery Center which was \$200,000 in fiscal year 2010. As of June 30, 2011 the District had not been notified that there was a resulting profit from the Surgery Center to distribute. In fiscal year 2010 the District's investments experienced a significant increase in value due to the recovery of the market from the pervious year. A more stable market coupled in fiscal year 2011 resulted in a minimal increase in the fair value of investments for 2011. These decreases were offset by lower interest expense of \$271,574 in fiscal year 2011.

EDEN TOWNSHIP HEALTHCARE DISTRICT

Management's Discussion and Analysis Required Supplementary Information (Unaudited)

Operating expenses decreased by \$714,140 due primarily to a decrease in grant expense of \$1,069,325. Decreases in the change in fair value of investments of \$930,332, offset with a decrease in operating loss increased the 2011 change in net assets by \$304,691 compared to 2010.

For the year ended June 30, 2010, operating revenue increased to \$3,620,549 from \$3,406,945 in 2009. Increases in rental income of \$165,779 were due to higher occupancy of the Dublin Gateway Medical Center (DGMC) and eight months of rental income from the Temporary Medical Office Building offset with decreased rental income from the San Leandro Medical Arts Building due to new vacancies coupled with a reduction in rent for existing tenants. The reduction in rent was due to a reclassification of the building's class until improvements to the property facilities can be completed.

Net nonoperating revenue (expense) increased by \$1,540,002 in 2010 due to a decrease in interest expense of \$301,371, lower profit allocations from the San Leandro Surgery Center of \$160,080 and an increased change in fair value of investments of \$1,530,516 due to improvements in the market.

Operating expenses for the year ended June 30, 2010 decreased by \$1,785,837 due primarily to a decrease in grant expense of \$1,808,264 and depreciation expense of \$697,353. Increases in the fair value of investments of \$1,530,516 combined with a decreased operating loss improved the 2010 change in net assets by \$3,539,443 compared to 2009

For the year ended June 30, 2011, operating expenses for the District decreased by \$714,140. Grant expense decreased \$1,069,325 resulting from the temporary suspension of new grant awards. For fiscal year 2011 the Board of Directors voted to temporarily suspend grants to offset legal expense associated with the dispute with Eden Medical Center (EMC or Sutter Health) over the closure of San Leandro Hospital. Purchased services decreased in 2011 by \$56,459. This was primarily due to decreased consulting expense of \$263,811 of which \$180,489 was due to the conversion of the District staff from contractors to employees effective January 1, 2011. Additional reductions were \$49,371 in consulting fees paid to Armanino McKenna, LLP who were hired in 2010 to review San Leandro Hospital's financial records for accuracy and in calculating the purchase price under the 2008 agreement. There was a reduction in grant administration consulting of \$32,431 due to the suspension of grants for 2011. Additional changes in purchased services were decreased audit fees of \$27,685, and decreased dues and subscriptions of \$12,504. Audit fees in 2010 were higher than 2011 due to the preparation of past years tax returns (2007 – 2010) and additional time spent auditing capital improvements for the Dublin Gateway building. Decreased dues and subscriptions were due to the decision not to renew Association of California Healthcare Districts (ACHD) membership for 2011. These decreases were offset with increased election expense of \$162,145 as an election was held in fiscal year 2011, increased legal fees of \$56,184 resulting from the continued dispute with EMC over the closure of San Leandro Hospital and increased District rent of \$27,107. District rent is the temporary medical office trailer which is currently used to house the District staff and EMC physicians during construction of the EMC replacement facility. In 2010 only nine months of this expense was recognized compared to twelve months in 2011. Taxes increased by \$21,669 for the year 2011 as compared to 2010. Amortization expense increased \$51,769 due to the amortization of loan and legal fees associated with the refinancing of the Dublin Gateway loan. Depreciation expense increased \$36,682 due to the depreciation of the temporary medical office trailer and capital improvements made to the San Leandro Medical Art Building.

For the year ended June 30, 2010, operating expenses for the District decreased by \$1,785,837. Grant expense decreased \$1,808,264 due to a reduction in one time grant expenditures. For fiscal year 2010 \$500,000 was awarded to Davis Street Family Resource Center to assist in the purchase of their building compared to \$1,500,000 awarded to St. Rose Hospital in fiscal year 2009. Outside services increased in 2010 by \$621,759 primarily due to increased legal fees of \$633,139 resulting from the dispute with EMC

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Management's Discussion and Analysis Required Supplementary Information (Unaudited)

(Sutter Health) over the closure of San Leandro Hospital. Additional changes in outside services were; investment fees increased \$33,241 due to a full year of professional investment management, audit fees increased \$28,055 and District rent increased \$135,460. These increases were offset by decreases in election expense of \$115,146, consulting expense of \$105,377 and other various increases of \$12,385. An election was not held in fiscal year 2010 but was held again in fiscal year 2011. Lower consulting was due to the completion of consulting services by csIStrategy related to the development of various projects being considered by the District. District rent is the temporary medical office trailer which is currently used to house the District staff and EMC physicians during construction of the EMC replacement facility. Taxes increased by \$79,740 for the year 2010 as compared to 2009. This was due to a credit to tax expense in 2009 for an over accrual of tax expense made in 2008. Depreciation expense decreased \$697,353 due to San Leandro Hospital's equipment being fully depreciated as of June 30, 2009.

	For the Years Ended June 30,		
	2011	2010	2009
NET ASSETS:			
Invested in capital assets, net of related debt	\$ 46,572,219	\$ 48,324,063	\$ 50,981,511
Restricted	5,444,193	-	26,168
Unrestricted	16,388,159	25,318,276	27,567,737
Total net assets	<u>\$ 68,404,571</u>	<u>\$ 73,642,339</u>	<u>\$ 78,575,416</u>

At June 30, 2011, net assets decreased by \$5,237,768. Net assets invested in capital assets, net of related debt, decreased \$1,751,844 due to depreciation expense and an increase in construction in progress cost for the new Eden Medical Office Building. Restricted net assets increased by \$5,444,193 due to the collateral requirements associated with the refinanced loan for Dublin Gateway and Unrestricted net assets decreased by \$8,930,117 due to a negative change in net assets offset by decreases in net assets invested in capital assets net of related debt.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The District's capital assets include land, construction in progress, land improvements, buildings, tenant improvements and equipment. At June 30, 2011 and 2010, the District's investment in capital assets totaled \$94,774,617 and \$96,526,461, respectively. During 2011, the District's additions to depreciable capital assets were \$363,221 of which \$41,879 were related to tenant improvements and \$321,342 were related to common area building improvements. The balance of construction in progress at June 30, 2011 was \$2,721,665. Of this amount \$68,397 was related to the Dublin Gateway Medical Center (DGMC) facility, and \$2,653,268 was related to the District's new medical office building.

At both June 30, 2011 and 2010, the District had outstanding balance on a loan payable of \$48,202,398. The bank loan was obtained during fiscal year 2007 as partial financing for the purchase of the DGMC property. The loan payable matured on June 1, 2010 and a temporary loan was obtained for the outstanding balance of \$48,202,398 until September 30, 2010. The loan was modified again on September 27, 2010. The loan's total commitment was reduced to \$40,500,000 which will mature October 1, 2012. A new secured line of credit was executed simultaneously for the remaining balance of \$7,702,397. The line of credit was executed to increase the bank's total security on the outstanding principal balance at September 1, 2010 of \$48,202,398. The principal of \$7,702,397 on the line of credit is secured by the San Leandro Medical Arts Building and \$3,300,000 of marketable securities. The

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Management's Discussion and Analysis Required Supplementary Information (Unaudited)

maturity date is October 1, 2012. On June 2, 2011 a third modification was made which increased the collateral an additional \$2,000,000 and required the District to begin paying down the principal based on a percentage of specific excess cash flows from Dublin Gateway Center.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

On June 30, 2011, the District has three rental properties for which income and expenses are included in the fiscal year 2011-2012 budget. The San Leandro Medical Arts Building continues to be occupied by long-term tenants and a few newer tenants with about 10% vacancy. In fiscal year 2010 the building was reclassified from a "B" class building to a "C" rents were reduced accordingly. The building produces positive cash flow and is expected to increase as rents gradually increase. As of 2011 most of the capital expenditures to improve the building's heating, air conditioning and plumbing system have been completed. The temporary building at Lake Chabot Road continues to operate at a loss, since it is not fully occupied and it was installed primarily as a stop gap for displaced physicians from the Eden Medical Center campus as the new Hospital construction had displaced medical offices. The new Eden Medical Building construction is well underway and should be completed by late winter of 2011. Leases are currently being negotiated for occupancy in the spring of 2012. The Dublin Gateway Building has had substantial vacancy in Building One with two full floors and some of the third floor vacant as well. The District is in the final stages of negotiating a lease for most of the first floor, which will increase the revenue by approximately \$700,000 per year. Further, an empty suite built as a speculative investment is expected to be leased to a new tenant who will occupy the space by the fall of 2011. This will add another \$100,000 in revenue. Both should make a substantial contribution to positive cash flow in 2012 and beyond.

These factors are all reflected in the budget for 2011-2012, but because of rent abatement for new tenants, the full impact of these positive changes will not occur until the following fiscal year (2012-2013).

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The District's financial report is designed to provide the District's Board of Directors, management, creditors, legislative and oversight agencies, citizens and others with an overview of the District's finances and to demonstrate its accountability for funds received. For additional information about this report, please contact the District's office at 20410 Lake Chabot Road Suite 1A, Castro Valley, CA 94546.

Basic Financial Statements

EDEN TOWNSHIP HEALTHCARE DISTRICT

Statements of Net Assets

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Current assets:		
Cash and equivalents	\$ 1,242,209	\$ 2,037,158
Restricted cash and investments	5,443,443	-
Receivable - other	-	200,000
Accounts receivable - tenants	151,930	389,185
Interest receivable	346,027	292,256
Prepaid expense	82,519	65,744
Total current assets	<u>7,266,128</u>	<u>2,984,343</u>
Other assets:		
Investments	18,032,142	25,747,275
Deposit	750	2,350
Goodwill, net	3,020,258	3,252,586
Other	334,451	149,713
	<u>21,387,601</u>	<u>29,151,924</u>
Capital assets:		
Nondepreciable	18,575,490	16,933,694
Depreciable	76,199,127	79,592,767
Total capital assets, net	<u>94,774,617</u>	<u>96,526,461</u>
Total assets	<u><u>\$ 123,428,346</u></u>	<u><u>\$ 128,662,728</u></u>
 Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 637,887	\$ 238,892
Interest payable	126,734	132,780
Security deposits held	27,633	28,633
Unearned rent	29,123	60,186
Grants payable	6,000,000	6,357,500
Total current liabilities	<u>6,821,377</u>	<u>6,817,991</u>
Loan payable	<u>48,202,398</u>	<u>48,202,398</u>
Total non-current liabilities	<u>48,202,398</u>	<u>48,202,398</u>
Total liabilities	<u>55,023,775</u>	<u>55,020,389</u>
 Net assets		
Invested in capital assets, net of related debt	46,572,219	48,324,063
Restricted	5,443,443	-
Unrestricted	16,388,909	25,318,276
Total net assets	<u>68,404,571</u>	<u>73,642,339</u>
Total liabilities and net assets	<u><u>\$ 123,428,346</u></u>	<u><u>\$ 128,662,728</u></u>

See accompanying notes to the financial statements.

EDEN TOWNSHIP HEALTHCARE DISTRICT
 Statements of Revenues, Expenses and Changes in Net Assets
 For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues		
Rental income	\$ 3,215,788	\$ 3,159,857
Tenant Reimbursements	466,099	460,692
Total operating revenues	<u>3,681,887</u>	<u>3,620,549</u>
Operating expenses		
Salaries and benefits	180,489	-
Purchased services	1,938,913	1,995,372
Rental property operating and maintenance	1,221,688	1,100,653
Taxes	376,544	354,875
Grants to service providers and communitiy	78,025	1,147,350
Amortization	381,688	329,919
Depreciation	3,892,361	3,855,679
Total operating expenses	<u>8,069,708</u>	<u>8,783,848</u>
Operating loss	<u>(4,387,821)</u>	<u>(5,163,299)</u>
Nonoperating revenues (expenses):		
Interest income	701,379	922,790
Interest expense	(1,580,105)	(1,851,679)
Change in fair value of investments	28,779	959,111
Other gain	-	200,000
Net nonoperating revenues (expenses)	<u>(849,947)</u>	<u>230,222</u>
Change in net assets	(5,237,768)	(4,933,077)
Net assets, beginning of year	<u>73,642,339</u>	<u>78,575,416</u>
Net assets, end of year	<u>\$ 68,404,571</u>	<u>\$ 73,642,339</u>

See accompanying notes to the financial statements.

EDEN TOWNSHIP HEALTHCARE DISTRICT

Statements of Cash Flows For the Years Ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash receipts from customers	\$ 4,087,079	\$ 3,485,031
Payments to suppliers of goods and services	(2,804,100)	(3,262,331)
Payments to employees for services	(153,170)	-
Grant payments	(435,525)	(1,201,811)
Tax payments	(376,544)	(356,725)
Net cash provided by (used in) operating activities	317,740	(1,335,836)
Cash flows from capital and related financing activities:		
Payment of loan fees	(334,098)	(38,773)
Interest paid	(1,586,151)	(1,797,305)
Purchase of capital assets	(2,140,517)	(1,613,557)
Net cash used in capital and related financing activities	(4,060,766)	(3,449,635)
Cash flows from investing activities:		
Investment income received	598,007	881,914
Purchase of investments	(37,055,030)	(45,905,198)
Proceeds from sale of investments	44,848,543	47,633,184
Change in restricted cash	(5,443,443)	-
Net cash provided by (used in) investing activities	2,948,077	2,609,900
Net change in cash and cash equivalents	(794,949)	(2,175,571)
Cash and cash equivalents, beginning of the year	2,037,158	4,212,729
Cash and cash equivalents, end of the year	\$ 1,242,209	\$ 2,037,158
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ (4,387,821)	\$ (5,163,299)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	3,892,361	3,855,679
Amortization	381,688	329,919
Changes in assets and liabilities:		
Accounts receivable - tenants	237,255	(12,140)
Receivable - other	200,000	28,017
Deposits	1,600	23,818
Prepaid expenses	(16,775)	19,987
Accounts payable and accrued liabilities	398,995	(164,428)
Taxes payable	-	(1,850)
Security deposits payable	(1,000)	6,010
Unearned rent	(31,063)	(175,071)
Grants payable	(357,500)	(82,478)
Net cash provided by (used in) operating activities	\$ 317,740	\$ (1,335,836)
Supplemental disclosure of noncash investing, capital or financing activities:		
Change in fair value of investments	\$ 28,779	\$ 959,111

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

EDEN TOWNSHIP HEALTHCARE DISTRICT

Notes to Basic Financial Statements

(1) ORGANIZATION

Eden Township Healthcare District (the “District”), a political subdivision of the State of California (State), was organized under the Local Hospital District Law as set forth in the Health and Safety Code of the State of California. It is exempt from Federal and State income taxes. The District operated Eden Hospital Medical Center and Laurel Grove Hospital (the “Hospitals”) in Castro Valley, California, until January 14, 1998 when the District transferred substantially all of the net operating assets and operations of the Hospitals to Eden Medical Center (“EMC”), a California nonprofit public benefit corporation. The transfer occurred pursuant to EMC’s affiliation with Sutter Health, a California nonprofit public benefit corporation. The District is one of two corporate members of EMC and the District’s five elected directors are members of EMC’s eleven-member Board of Directors. Sutter Health is the other corporate member.

The District formed Dublin Gateway, LLC, a California limited liability company and Dublin Gateway, Inc., a California corporation, manager of Dublin Gateway, LLC, in 2006. The corporation is included in the financial statements of the District because it meets the criteria in Governmental Accounting Standards Board (“GASB”) Statement No. 14, “*The Financial Reporting Entity*”, for inclusion as a component unit of the District.

The District, in partnership with Dublin Gateway, LLC, acquired the Triad Dublin Gateway, LP, (TDG LP), a limited partnership on May 17, 2007, for the purpose of purchasing, owning, operating and developing the Dublin Gateway Medical Center (DGMC). Since TDG LP is wholly owned and controlled by the District through its ownership of Dublin Gateway, LLC, the operations of TDG LP are blended with the District’s.

The District owns three medical office properties; DGMC, San Leandro Medical Arts Building and the Lake Chabot property. The three properties are managed by professional commercial property managers. The District leased the San Leandro Medical Arts Building to Sutter Health prior to June 1, 2008 at which time Sutter Health terminated its leasehold interest in the building. The Lake Chabot property was purchased in September 2004 and the District is in the process of constructing permanent buildings on the Lake Chabot property.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

The basic financial statements provide information about the District’s enterprise fund. The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The District distinguishes operating revenues from non-operating items. Operating revenues result from rental property revenues. Non-operating revenues include revenue related to sales of capital assets, interest income and expense, fair value changes on investments and realized investment income and revenue related to distributions from interests in medical facilities as the District does not consider these revenues to be part of the ongoing operations. Operating expenses are all expenses incurred to provide operating revenue, including grants to service providers that are funded by interest income.

EDEN TOWNSHIP HEALTHCARE DISTRICT
Notes to Basic Financial Statements

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (“FASB”) Statements and Interpretations, Accounting Principles Board (“APB”) Opinions and Accounting Research Bulletins (“ARBs”) of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, not to apply FASB Statements and Interpretations issued after November 30, 1989, due to the nature of the District’s operations.

Cash and Equivalents

For purposes of the statement of cash flows, the District considers cash held in bank accounts and short-term investments with original maturities of three months or less to be cash and cash equivalents.

Restricted Cash and Investments

The restricted cash and investments consist of balances required to be held separately by the District’s debtor. The balance at June 30, 2011 includes investments in fixed income securities which are stated at fair market value of \$5,413,542 as well cash and cash equivalents of \$29,901.

Investments

The District is restricted by State law in the types of investments that can be made. State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate notes, repurchase agreements, reverse repurchase agreements, banker’s acceptances and other instruments including the State Treasurer’s Investment Pool.

Investments in participating interest-earning investment contracts are recorded at amortized cost, which approximates fair value for these investments, and all other investments are stated at fair value in the statements of net assets based upon published market quotations, where available. Investment income or loss (including realized gains and losses on investments, interest and dividends) and unrealized gains and losses on investments are reported in the statements of revenues, expenses and changes in net assets.

Capital Assets

The District defines capital assets as assets with an individual cost of \$5,000 or greater and an estimated useful life in excess of one year. Capital assets are stated at cost when purchased or constructed, or for donated property, at the asset’s estimated fair value at the time the donated property is received. Depreciation for land improvements, building and equipment is provided using the straight-line method over the assets’ estimated useful lives ranging from 4 to 40 years. Depreciation for tenant improvements is provided using the straight-line method over the shorter of the assets estimated useful life or the lease term, generally 10 years or less.

EDEN TOWNSHIP HEALTHCARE DISTRICT
Notes to Basic Financial Statements

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Contingencies

We record an estimated loss contingency when information is available that indicates that it is probable that a material loss has been incurred or an asset has been impaired and the amount of the loss can be reasonably estimated. We disclose if the assessment indicates that a potentially material loss contingency is not probably but is reasonably possible, or is probable but cannot be estimated. Loss contingencies considered remote are generally not disclosed.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to current year presentation.

Effects of New Pronouncements

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity - Omnibus -- An Amendment of GASB Statements No. 14 and No. 34*. This statement modifies certain requirements for inclusion of component units of the financial reporting entity. The statement specifically amends the criteria for the inclusion of component units within the financial statements of the reporting entity as well as amends the method of inclusion. The statement is effective for the District's fiscal year ended June 30, 2013, however early adoption is permitted. While the District did not elect to early implement this statement, the effect of implementation is not anticipated to have a material affect on the District's financial statements.

In December 2010, GASB issued Statement No. 62: *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement was to incorporate into GASB's authoritative guidance certain accounting and financial reporting guidance that was issued on or before November 30, 1989 by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB) and the Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA). The statement is effective for the District's fiscal year ended June 30, 2013, however early adoption is permitted. While the District did not elect to early implement this statement, the effect of implementation is not anticipated to have a material affect on the District's financial statements.

EDEN TOWNSHIP HEALTHCARE DISTRICT
Notes to Basic Financial Statements

(3) CASH AND INVESTMENTS

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment that is in the possession of another party. The District does not have a policy for custodial credit risk on deposits or investments. Under the California Government Code, a financial institution is required to secure deposits in excess of \$250,000 made by state or local governmental units by pledging securities held in the form of an undivided collateral pool. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The collateral is held by the pledging financial institution's trust department and is considered held in the District's name.

At June 30, 2011 and 2010, the District had cash and equivalents on deposit at banks of \$1,002,281 and \$1,051,916, respectively, that were covered by depository insurance or collateralized by the pledging financial institution.

At June 30, 2011 and 2010, the balances on deposit at financial institutions in excess of federal depository insurance limits of \$250,000 totaled \$320,132 and \$910,161, respectively and were held in uncollateralized accounts. All of the District's investments, excluding the annuity contract, are held by the same broker-dealer.

Investments

At June 30, 2011 and 2010, investments consisted of the following at fair value, including \$5,413,542 and \$0, respectively, that are classified as restricted cash and investments:

	2011	2010
Contract with insurance company	\$ 1,681,665	\$ 1,681,665
US Treasury notes	11,105,834	8,198,402
US government agency securities	4,300,777	5,470,060
Corporate bonds	6,357,408	10,397,148
Total investments	\$ 23,445,684	\$ 25,747,275

EDEN TOWNSHIP HEALTHCARE DISTRICT
Notes to Basic Financial Statements

(3) CASH AND INVESTMENTS (Continued)

Investments Authorized by the California Government Code

The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
US Treasury Notes, Bonds, or Bills	5 years	None	None
US Government Agency Securities	5 years	None	None
Repurchase Agreements	1 year	None	None
State of California Obligations	5 years	None	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Medium-Term Notes	5 years	30%	None
Certificates of Deposit	1 year	10%	None
Negotiable Certificates of Deposits	5 years	None	None
State of California Local Agency Investment Fund	N/A	None	None
Money Market Accounts	N/A	None	None

At June 30, 2011 and 2010, the District held an investment in an annuity contract with an insurance company in the amount of \$1,681,665. This District is not permitted to invest in this investment type under the California Government Code.

Interest Rate Risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have any policies specifically addressing interest rate risk. The District held investments at June 30, 2011 and 2010 that had terms remaining to maturity in excess of five years. This District is not permitted to invest in securities with terms remaining to maturity in excess of five years under the California Government Code.

At June 30, 2011 and 2010, scheduled maturities of fixed income securities consisted of the following:

	2011	2010
Maturing in		
Less than 1 year	\$ 4,682,953	\$ 1,670,109
1 year to 5 years	16,386,678	21,318,968
5 years to 10 years	2,376,053	2,758,198
Total	<u>\$ 23,445,684</u>	<u>\$ 25,747,275</u>

At June 30, 2011 and 2010, respectively, the District held an investment in an adjustable corporate bond issue in the amount of \$0 and \$498,755 which adjusts based on the consumer price index.

EDEN TOWNSHIP HEALTHCARE DISTRICT

Notes to Basic Financial Statements

(3) CASH AND INVESTMENTS (Continued)

Credit Risk

The District's credit rating risk is governed by Section 53601 of the California Government Code, which, among others, limits investments in money market mutual funds to those funds with the highest ranking by at least one of the national rating agencies and investments in corporate bonds are limited to those with a minimum ranking of A by at least one national rating agencies. The District held an insurance contract that is not rated as of June 30, 2011 and 2010. With the exception of the insurance contract, the District did not hold investments at June 30, 2011 that had ratings of less than A by national rating agencies but did hold investments at June 30, 2010 that had ratings of less than A which is not permitted under the California Government Code. There are no investment limits on the securities of the U.S. Treasury as these investments are backed by the full faith and credit of the United States government.

The following is a summary of the credit quality distribution for securities with credit exposure as rated by Moody's Investor Service at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
AAA	\$ 14,221,810	\$ 14,609,698
AA1-AA3	1,257,509	1,733,878
A1-A3	4,371,246	6,543,042
B1 - BAA2	-	1,178,992
Not rated	3,595,119	1,681,665
Total	<u>\$ 23,445,684</u>	<u>\$ 25,747,275</u>

In August 2011, U.S. Treasury and governmental agency securities received a credit down-grade from AAA to AA+ from a third party credit rating agency. The total amount of U.S. Treasury and governmental agency securities held by the District as of June 30, 2011 and 2010 was \$15,406,611 and \$13,668,462, respectively.

Concentration of Credit Risk

The District diversifies its portfolio as required by the California Government Code. At June 30, 2011 and 2010, more than 5 percent of the District's investments are invested in the following.

	<u>2011</u>	<u>2010</u>
Federal National Mortgage Association	12.5%	17.6%
Morgan Stanley Corporate Bond	4.4%	8.3%
New York Life	9.3%	7.0%
Federal Home Loan Mortgage Corporation	8.0%	5.1%

EDEN TOWNSHIP HEALTHCARE DISTRICT
Notes to Basic Financial Statements

(4) CAPITAL ASSETS

Changes in capital assets consist of the following for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Transfers	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$ 15,853,825			\$ 15,853,825
Construction in progress	1,079,869	1,777,296	(135,500)	2,721,665
Total capital assets not being depreciated	<u>16,933,694</u>	<u>1,777,296</u>	<u>(135,500)</u>	<u>18,575,490</u>
Capital assets being depreciated:				
Land improvements	\$ 545,475			\$ 545,475
Building	91,885,191	321,342	135,500	92,342,033
Tenant improvements	2,591,151	41,879		2,633,030
Equipment	3,544,230			3,544,230
Total capital assets being depreciated	<u>98,566,047</u>	<u>363,221</u>	<u>135,500</u>	<u>99,064,768</u>
Less: Accumulated depreciation	<u>(18,973,280)</u>	<u>(3,892,361)</u>	<u>-</u>	<u>(22,865,641)</u>
Total capital assets being depreciated, net	<u>79,592,767</u>	<u>(3,529,140)</u>	<u>135,500</u>	<u>76,199,127</u>
Total capital assets, net	<u>\$ 96,526,461</u>	<u>\$ (1,751,844)</u>	<u>\$ -</u>	<u>\$ 94,774,617</u>

Changes in capital assets consist of the following for the year ended June 30, 2010:

	Balance July 1, 2009	Additions	Disposals	Balance June 30, 2010
Capital assets not being depreciated:				
Land	\$ 15,853,825	\$ -	\$ -	\$ 15,853,825
Construction in progress	646,105	1,094,536	(660,772)	1,079,869
Total capital assets not being depreciated	<u>16,499,930</u>	<u>1,094,536</u>	<u>(660,772)</u>	<u>16,933,694</u>
Capital assets being depreciated:				
Land improvements	\$ 545,475	\$ -	\$ -	\$ 545,475
Building	91,227,209	35,718	622,264	91,885,191
Tenant improvements	2,484,666	67,977	38,508	2,591,151
Equipment	3,544,230	-	-	3,544,230
Total capital assets being depreciated	<u>97,801,580</u>	<u>103,695</u>	<u>660,772</u>	<u>98,566,047</u>
Less: Accumulated depreciation	<u>(15,117,601)</u>	<u>(3,855,679)</u>	<u>-</u>	<u>(18,973,280)</u>
Total capital assets being depreciated, net	<u>82,683,979</u>	<u>(3,751,984)</u>	<u>660,772</u>	<u>79,592,767</u>
Total capital assets, net	<u>\$ 99,183,909</u>	<u>\$ (2,657,448)</u>	<u>\$ -</u>	<u>\$ 96,526,461</u>

EDEN TOWNSHIP HEALTHCARE DISTRICT
Notes to Basic Financial Statements

(5) GOODWILL

Goodwill relates to the District's purchase of San Leandro Hospital (SLH) in July 2004. Goodwill is being amortized over its estimated useful life of 20 years which is the term of the agreement between Eden Medical Center and the District for the operation of SLH.

	2011	2010
Goodwill	\$ 4,646,553	\$ 4,646,553
Less accumulated amortization	(1,626,295)	(1,393,967)
Goodwill, net	\$ 3,020,258	\$ 3,252,586

Amortization expense related to goodwill totaled \$232,328 for both the years ended June 30, 2011 and 2010.

(6) LONG-TERM LIABILITIES

At June 30, 2011, and 2010, the District's long-term liabilities consisted of a variable rate note payable secured on the Dublin Gateway Medical Center and guaranteed by the District. The note was obtained on May 17, 2007 for a maximum amount of \$54,000,000.

The original terms of the bank loan included three holdback reserves which permitted TDG, LP to draw on funds for construction and tenant improvements to the property. The holdback reserves included the following: \$7,000,000 for tenant improvements, \$500,000 for the payment of leasing commissions and \$1,400,000 to fund interest payments.

The District financed total interest from the holdback reserves of \$1,111,991 and funded tenant improvements of \$1,990,407 through the date of loan modification.

The terms of the note were modified on May 25, 2010. The remaining balance of \$5,797,602 available as holdback reserves was cancelled. The maturity date of the loan was extended from June 1, 2010 to September 1, 2010 under the modification.

A second modification was executed on September 27, 2010. The note's total commitment was reduced to \$40,500,000 which will mature October 1, 2012. A new secured line of credit was executed simultaneously for the remaining balance of \$7,702,398. The line of credit was executed to increase the bank's total security on the outstanding principal balance at September 1, 2010 of \$48,202,398. The principal of \$7,702,398 on the line of credit is secured by the San Leandro Medical Arts Building and \$3,300,000 of marketable securities. The maturity date is October 1, 2012. The variable interest rates on the note and the line of credit were 3.19% and 2.94% as of June 30, 2011 and 2010, respectively. The variable interest rate interest charged on the note at June 30, 2010 was 3.36% on the outstanding balance.

A third modification was executed on June 2, 2011. Starting July 15, 2011, on a monthly basis, the District is required to pay to the bank 50% of all excess cash flow for the prior month's financial results for the Dublin Gateway operations. These funds are to pay down the principal balance of the loan. Any remaining unpaid principal balance becomes due on October 1, 2012. Additional collateral funds of \$2,000,000 were also required.

EDEN TOWNSHIP HEALTHCARE DISTRICT
Notes to Basic Financial Statements

(6) LONG-TERM LIABILITIES (Continued)

Changes in the District's long-term liabilities for the fiscal year ended June 30, 2011:

	<u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2011</u>	<u>Amounts Due Within One Year</u>
Bank loan	<u>\$ 48,202,398</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,202,398</u>	<u>\$ -</u>

Changes in the District's long-term liabilities for the fiscal year ended June 30, 2010:

	<u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2010</u>	<u>Amounts Due Within One Year</u>
Bank loan	<u>\$ 48,202,398</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,202,398</u>	<u>\$ -</u>

The District's annual debt service requirement to maturity as of June 30, 2011, is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending			
2012	-	1,518,400	1,518,400
2013	48,202,398	379,600	48,581,998
	<u>\$ 48,202,398</u>	<u>\$ 1,898,000</u>	<u>\$ 50,100,398</u>

Interest Rate Swap Agreement. On May 17, 2007, in conjunction with the bank loan, TDG, LP entered into an interest rate swap agreement. The swap agreement matured and terminated on June 1, 2010.

Terms and Objective of the Interest Rate Swap. The interest rate swap agreement with U.S. Bank was applied to \$19,000,000 of the variable rate loan. The swap's notional amount and par amount of the bank loan was \$19,000,000. Under the swap, the District paid the counterparty a fixed payment of 5.135% and received a variable payment computed at one month LIBOR (variable rate on the note is LIBOR plus 1.650%).

Fair Value. The swap had an aggregate negative fair value of (\$763,893) at June 30, 2009. The coupon on the District's variable rate loan adjusted to changing interest rates, therefore there was a corresponding fair value increase or decrease. The fair value is the net present value of the swap using market data and the terms of the swap, which included the expectations of the probability of occurrence of certain underlying events as defined in the agreement.

EDEN TOWNSHIP HEALTHCARE DISTRICT
Notes to Basic Financial Statements

(6) LONG-TERM LIABILITIES (Continued)

Credit Risk. The aggregate fair value of the swap represented the District's credit exposure to the counterparties as of June 30, 2009. Should the counterparties have failed to perform according to terms of the swap contract, the District faced a maximum possible (loss) gain equivalent to the aggregate negative fair value.

Termination Risk. The District or the counterparty may have terminated the swap if the other party failed to perform under the terms of the contract. The swap agreement terminated June 1, 2010.

(7) AGREEMENTS WITH RELATED ORGANIZATIONS

In March 2008, the District entered into an amended and restated agreement with Sutter Health to construct a medical center on the site of the Eden Medical Center campus, to replace the existing hospital building which will not meet the seismic safety requirements of State Senate Bill 1953. The replacement medical center facility is expected to be completed by January 1, 2013 and the existing hospital building demolished as a part of this project. Sutter Health has assumed the cost and responsibility for the construction project and is required to pay the District \$275 million less the costs incurred for the project, if it defaults on the agreement and returns Eden Medical Center to the District. Under the terms of the agreement, the District Board will no longer participate in the governance of EMC, after certain milestones in the hospital construction project have been reached.

In February 2006, the District approved a grant to EMC in the amount of \$2,000,000 for the Women's Health Services department for construction, advertising and operative/administrative cost over a two-year period. As of June 30, 2011 and 2010, the balance of the grant payable is \$1,000,000.

In fiscal year 2004, the District approved a grant to EMC in the amount of \$5,000,000 to be used for the continued development of the neuroscience center. At June 30, 2011 and 2010, included in grants payable is a total amount of \$5,000,000 outstanding on this grant.

(8) RELATED PARTY TRANSACTIONS

One of the District's tenants also sits as a member of the Board of Directors. Total rental revenue received from this tenant was \$57,000 and \$55,000 for the years ended June 30, 2011 and 2010, respectively.

(9) NET ASSETS

The financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets, net of related debt, restricted and unrestricted.

Invested in Capital Assets, Net of Related Debt – This category represents all capital assets in one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Assets – This component of net assets consists of constraints imposed by creditors (such as through debt covenants), grantors, contributions, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. As of June 30, 2011 and 2010, the District reported \$5,444,193 and \$0 in restricted net assets, respectively. The restriction related to required collateral to be held for the Districts loan payable.

EDEN TOWNSHIP HEALTHCARE DISTRICT
Notes to Basic Financial Statements

(9) NET ASSETS (Continued)

Unrestricted Net Assets – This category represents net assets of the District not restricted for any project or purpose. Portions of unrestricted net assets may be designated to indicate tentative plans for financial resource utilization in a future period. Such plans or intent are subject to change and have not been legally authorized or may not result in expenditures. The District has no Board designated funds.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first and then unrestricted resources, as they are needed.

(10) MEDICAL OFFICE BUILDINGS – RENTAL INCOME

The future minimum rental income from operating leases is as follows:

Fiscal year ending June 30,	Lake Chabot Property	San Leandro Medical Arts	Dublin Gateway	Total
2012	94,325	733,572	2,286,772	3,114,669
2013	27,665	679,605	2,354,327	3,061,597
2014	-	391,065	2,424,176	2,815,241
2015	-	208,651	2,455,406	2,664,057
2016	-	28,016	1,158,036	1,186,052
Thereafter	-	-	580,404	580,404
Total minimum lease rentals	<u>\$ 121,990</u>	<u>\$ 2,040,911</u>	<u>\$ 11,259,121</u>	<u>\$ 13,422,022</u>

(11) PENSION PLAN

The District maintains a 457 defined contribution plan for all employees which is administered by CalPERS. Participants receive an employer match contribution of 100% of the employee contribution, up to 5% of the employee’s annual salary. Total pension plan expense was \$5,544 and \$0 for the years ended June 30, 2011 and 2010, respectively.

(12) LITIGATION

The District executed an amended and restated lease and hospital operations agreement with EMC in March 2008. EMC has two corporate members: the District and Sutter Health. Under the terms of the amended agreement, EMC has the option to purchase the San Leandro Hospital (SLH) between July 1, 2009 and June 30, 2010. The District received notification from EMC (Sutter Health) of their intent to exercise the purchase option in July 2009.

EDEN TOWNSHIP HEALTHCARE DISTRICT
Notes to Basic Financial Statements

(12) LITIGATION (Continued)

If a purchase pursuant to the option is consummated, the purchase price would be equal to the net book value of the SLH recorded by the District, less total cash losses incurred by EMC during period of operation, and less total capital expenditures. The SLH has operated at a loss during the lease agreement which has been funded by EMC (Sutter Health). The proposed purchase price by EMC (Sutter Health) is \$0. The Trial Court ruled in favor of Sutter in the 2009 Cross Compliant filed by the District in November 2010. The District filed an appeal on March 9, 2011 and the appeal is set to be heard November 2, 2011. If the appeal is not successful, the District may further appeal to the California Supreme Court. The California Supreme Court may refuse to entertain an appeal. Therefore, if the pending appeal is unsuccessful and a further appeal is not available, the judgment in the trial court would result in a reduction of approximately \$19,000,000 from the book value of SLH based on the District's records. The District has not recorded a loss contingency because it is the belief of Management that the appeal will be successful.

(13) CONTINGENCIES

The transfer of the Hospitals to Eden Medical Center occurred pursuant to EMC's affiliation with Sutter Health. Under the terms of the affiliation, the District is potentially entitled to receive an additional \$10,000,000 from EMC. According to the MOU, the payment of this consideration is contingent upon EMC's operating income exceeding budget targets and is subject to reasonable working capital and other capital needs of EMC, as determined by EMC's Board of Directors. This contingent consideration is subject to future events which cannot be reasonably estimated and, accordingly, has not been reflected in the District's basic financial statements.

(14) SUBSEQUENT EVENT

On August 1, 2011, the District made a \$3,000,000 loan to St. Rose Hospital. The loan was made in order to temporarily fund a capital project implemented by St. Rose. The promissory note from St. Rose is due, with unpaid accrued interest, within 90 days and has an interest rate of 3.25% plus the prime rate.

Supplemental Information

EDEN TOWNSHIP HEALTHCARE DISTRICT

Combining Statement of Net Assets

June 30, 2011

(With Comparative Totals as of June 30, 2010)

	<u>Eden Township Healthcare District</u>	<u>Dublin Gateway LP</u>	<u>Total</u>	<u>2010</u>
Assets				
Current assets:				
Cash and equivalents	\$ 1,045,134	\$ 197,075	\$ 1,242,209	\$ 2,037,158
Restricted cash and investments	5,443,443	-	5,443,443	-
Receivable - other	-	-	-	200,000
Accounts receivable - tenants	3,971	147,959	151,930	389,185
Interest receivable	346,027	-	346,027	292,256
Prepaid expense	58,211	24,308	82,519	65,744
Total current assets	<u>6,896,786</u>	<u>369,342</u>	<u>7,266,128</u>	<u>2,984,343</u>
Other assets:				
Investments	18,032,142	-	18,032,142	25,747,275
Deposit	750	-	750	2,350
Goodwill, net	3,020,258	-	3,020,258	3,252,586
Other	-	334,451	334,451	149,713
Total other assets	<u>21,053,150</u>	<u>334,451</u>	<u>21,387,601</u>	<u>29,151,924</u>
Capital assets:				
Nondepreciable	7,507,093	11,068,397	18,575,490	16,933,694
Depreciable	15,856,064	60,343,063	76,199,127	79,592,767
Total capital assets, net	<u>23,363,157</u>	<u>71,411,460</u>	<u>94,774,617</u>	<u>96,526,461</u>
Total assets	<u>\$ 51,313,093</u>	<u>\$ 72,115,253</u>	<u>\$ 123,428,346</u>	<u>\$ 128,662,728</u>
Liabilities and net assets				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 635,620	\$ 2,267	\$ 637,887	\$ 238,892
Interest payable	-	126,734	126,734	132,780
Security deposits held	11,156	16,477	27,633	28,633
Unearned rent	29,083	40	29,123	60,186
Grants payable	6,000,000	-	6,000,000	6,357,500
Total current liabilities	<u>6,675,859</u>	<u>145,518</u>	<u>6,821,377</u>	<u>6,817,991</u>
Loan payable	<u>-</u>	<u>48,202,398</u>	<u>48,202,398</u>	<u>48,202,398</u>
Total non-current liabilities	<u>-</u>	<u>48,202,398</u>	<u>48,202,398</u>	<u>-</u>
Total liabilities	<u>6,675,859</u>	<u>48,347,916</u>	<u>55,023,775</u>	<u>55,020,389</u>
Net assets				
Invested in capital assets, net of related debt	23,363,157	23,209,062	46,572,219	48,324,063
Restricted	5,443,443	-	5,443,443	-
Unrestricted	15,830,634	558,275	16,388,909	25,318,276
Total net assets	<u>44,637,234</u>	<u>23,767,337</u>	<u>68,404,571</u>	<u>73,642,339</u>
Total liabilities and net assets	<u>\$ 51,313,093</u>	<u>\$ 72,115,253</u>	<u>\$ 123,428,346</u>	<u>\$ 128,662,728</u>

EDEN TOWNSHIP HEALTHCARE DISTRICT
Combining Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2011
(With Comparative Totals for the year ended June 30, 2010)

	<u>Eden Township Healthcare District</u>	<u>Dublin Gateway LP</u>	<u>Total</u>	<u>2010</u>
Operating revenues				
Rental income	\$ 875,039	\$ 2,340,749	\$ 3,215,788	\$ 3,159,857
Tenant Reimbursements	-	466,099	466,099	460,692
Total operating revenues	<u>875,039</u>	<u>2,806,848</u>	<u>3,681,887</u>	<u>3,620,549</u>
Operating expenses				
Salaries and benefits	180,489	-	180,489	-
Purchased services	1,936,234	2,679	1,938,913	1,995,372
Rental property operating and maintenance	465,080	756,608	1,221,688	1,100,653
Taxes	-	376,544	376,544	354,875
Grants to service providers and community	78,025	-	78,025	1,147,350
Amortization	232,328	149,360	381,688	329,919
Depreciation	1,347,317	2,545,044	3,892,361	3,855,679
Total operating expenses	<u>4,239,473</u>	<u>3,830,235</u>	<u>8,069,708</u>	<u>8,783,848</u>
Operating loss	<u>(3,364,434)</u>	<u>(1,023,387)</u>	<u>(4,387,821)</u>	<u>(5,163,299)</u>
Nonoperating revenues (expenses):				
Interest income	692,308	9,071	701,379	922,790
Interest expense	-	(1,580,105)	(1,580,105)	(1,851,679)
Change in fair value of investments	28,779	-	28,779	959,111
Other gain	-	-	-	200,000
Net nonoperating revenues (expenses)	<u>721,087</u>	<u>(1,571,034)</u>	<u>(849,947)</u>	<u>230,222</u>
Net loss before transfers	<u>(2,643,347)</u>	<u>(2,594,421)</u>	<u>(5,237,768)</u>	<u>(4,933,077)</u>
Transfer in	-	(406,947)	(406,947)	869,100
Transfer out	406,947	-	406,947	(869,100)
Change in net assets	<u>(2,236,400)</u>	<u>(3,001,368)</u>	<u>(5,237,768)</u>	<u>(4,933,077)</u>
Net assets, beginning of year	<u>46,873,634</u>	<u>26,768,705</u>	<u>73,642,339</u>	<u>78,575,416</u>
Net assets, end of year	<u>\$ 44,637,234</u>	<u>\$ 23,767,337</u>	<u>\$ 68,404,571</u>	<u>\$ 73,642,339</u>

EDEN TOWNSHIP HEALTHCARE DISTRICT
Combining Statement of Cash Flows
For the Year ended June 30, 2011
(With Comparative Totals for the Year Ended June 30, 2010)

	Eden Township Healthcare District	Dublin Gateway LP	Combined Total	Combined 2010
Cash flows from operating activities:				
Rental receipts	\$ 1,059,665	\$ 3,027,414	\$ 4,087,079	\$ 3,485,031
Payments to suppliers	(2,043,822)	(760,278)	(2,804,100)	(3,262,331)
Payments to employees for services	(153,170)	-	(153,170)	-
Grant payments	(435,525)	-	(435,525)	(1,201,811)
Tax payments	-	(376,544)	(376,544)	(356,725)
Net cash provided by (used in) operating activities	(1,572,852)	1,890,592	317,740	(1,335,836)
Cash flows from capital and related financing activities:				
Payment of loan fees	-	(334,098)	(334,098)	(38,773)
Interest paid	-	(1,586,151)	(1,586,151)	(1,797,305)
Purchase of capital assets	(2,020,495)	(120,022)	(2,140,517)	(1,613,557)
Interfund transfers	406,947	(406,947)	-	-
Net cash used in capital and related financing activities	(1,613,548)	(2,447,218)	(4,060,766)	(3,449,635)
Cash flows from investing activities:				
Investment income received	585,390	12,617	598,007	881,914
Purchase of investments	(37,055,030)	-	(37,055,030)	(45,905,198)
Proceeds from sale of investments	44,848,543	-	44,848,543	47,633,184
Change in restricted cash	(5,443,443)	-	(5,443,443)	-
Net cash provided by (used in) investing activities	2,935,460	12,617	2,948,077	2,609,900
Net change in cash and cash equivalents	(250,940)	(544,009)	(794,949)	(2,175,571)
Cash and cash equivalents, beginning of the year	1,296,074	741,084	2,037,158	4,212,729
Cash and cash equivalents, end of the year	\$ 1,045,134	\$ 197,075	\$ 1,242,209	\$ 2,037,158
Reconciliation of operating loss to net cash provided by (used in) operating activities:				
Operating loss	\$ (3,364,434)	\$ (1,023,387)	\$ (4,387,821)	\$ (5,163,299)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation	1,347,317	2,545,044	3,892,361	3,855,679
Amortization	232,328	149,360	381,688	329,919
Changes in assets and liabilities:				
Accounts receivable - tenants	2,045	235,210	237,255	(12,140)
Receivable - other	200,000	-	200,000	28,017
Deposits	1,600	-	1,600	23,818
Prepaid expenses	(16,783)	8	(16,775)	19,987
Accounts payable and accrued liabilities	399,994	(999)	398,995	(164,428)
Taxes payable	-	-	-	(1,850)
Security deposits payable	(1,000)	-	(1,000)	6,010
Unearned rent	(16,419)	(14,644)	(31,063)	(175,071)
Grants payable	(357,500)	-	(357,500)	(82,478)
Net cash provided by (used in) operating activities	\$ (1,572,852)	\$ 1,890,592	\$ 317,740	\$ (1,335,836)
Supplemental disclosure of noncash investing, capital or financing activities:				
Change in fair value of investments	\$ 28,779	\$ -	\$ 28,779	\$ 959,111