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

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

Years Ended June 30, 2010 and 2009

**EDEN TOWNSHIP HEALTHCARE DISTRICT**

**Years Ended June 30, 2010 and 2009**

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of 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, 2010 and 2009, 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, 2010 and 2009, 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.

The management's discussion and analysis identified in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the District's basic financial statements. The combining statement of net assets, combining statement of revenues, expenses and changes in net assets, and combining statement of cash flows (supplemental information) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Macias Gini & O'Connell LLP

Certified Public Accountants
Walnut Creek, California

October 15, 2010

## Management’s Discussion and Analysis

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 year.

## 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 balance sheets, 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.

*Balance Sheets* 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, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| ASSETS: | | | |
| Current assets | $ 2,984,343 | $ 4,954,902 | $ 7,942,061 |
| Other non-current assets | 29,151,924 | 30,235,763 | 33,329,715 |
| Capital assets | 96,526,461 | 99,183,909 | 100,277,303 |
| Total assets | $ 128,662,728 | $ 134,374,574 | $ 141,549,079 |
| LIABILITIES | | | |
| Current liabilities | $ 6,817,991 | $ 55,799,158 | $ 3,404,032 |
| Non-current liabilities | 48,202,398 | - | 51,097,111 |
| Total liabilities | 55,020,389 | 55,799,158 | 54,501,143 |
| NET ASSETS | 73,642,339 | 78,575,416 | 87,047,936 |
| Total liabilities and net assets | $ 128,662,728 | $ 134,374,574 | $ 141,549,079 |

Net assets at June 30, 2010 decreased to $73,642,339 from $78,575,416 in 2009 due to various factors. Operating revenues were up $81,799 and operating expenses were down $1,785,837 compared to 2009. In addition, net nonoperating expense decreased by $1,671,807 compared to 2009. For 2010 the District continues to operate at a loss.

Net assets at June 30, 2009 decreased to $78,575,416 from $87,047,936 in 2008 due to various factors. Operating revenues were up $905,768 and operating expenses were up $2,073,715 compared to 2008. In addition, interest expense decreased by $739,540 compared to 2008. For 2009 the District operated at a loss.

| | For the Years Ended June 30, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 * |
| OPERATING RESULTS: | | | |
| Operating revenues | | | |
| Interest income | $ 922,790 | $ 1,054,595 | $ 1,458,901 |
| Rental income | 3,159,857 | 2,994,078 | 1,770,587 |
| Tenant reimbursements | 460,692 | 412,867 | 326,284 |
| | 4,543,339 | 4,461,540 | 3,555,772 |
| Operating expenses | | | |
| Purchased services | 1,995,372 | 1,356,241 | 1,470,328 |
| Rental property operating and maintenance | 1,100,653 | 1,099,636 | 493,853 |
| Taxes | 354,875 | 275,135 | 352,987 |
| Amortization | 329,919 | 330,027 | 340,445 |
| Depreciation | 3,855,679 | 4,553,032 | 4,325,389 |
| Grants to service providers | 1,147,350 | 2,955,614 | 1,512,968 |
| | 8,783,848 | 10,569,685 | 8,495,970 |
| Operating loss | (4,240,509) | (6,108,145) | (4,940,198) |
| Net nonoperating revenues (expenses) | (692,568) | (2,364,375) | (2,688,911) |
| Change in net assets: | (4,933,077) | (8,472,520) | (7,629,109) |
| Net assets, beginning of year | 78,575,416 | 87,047,936 | 94,677,045 |
| Net assets, end of year | $ 73,642,339 | $ 78,575,416 | $ 87,047,936 |

* In 2008, change in fair value of investments of $256,051 was reclassified from operating revenues to nonoperating revenues to conform to the fiscal year 2009 presentation. In addition in 2008, a total of $237,398 was reclassified to interest income from change in fair value of investments ($93,735) and interest expense ($143,663).

For the year ended June 30, 2010, operating revenue increased to $4,543,339 from $4,461,540 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 expense decreased by $1,671,807 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 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, 2009, operating revenue increased to $4,461,540 from $3,555,772 in 2008. Increases in rental income of $1,223,491 were offset with a decrease in interest income of $404,306. Operating expenses increased by $2,073,715 due primarily to an increase in grant expense of $1,442,646 and rental property operating and maintenance costs of $605,783. Decreases in the fair value of investments of $827,456 contributed to an increase in a negative change in net assets of $843,411 from 2008 to 2009.

For the year ended June 30, 2009, rental income increased by $1,223,491 due to additional tenants occupying Dublin Gateway Medical Center (DGMC) and one year of lease revenue from San Leandro Medical Arts Building. Increases in operating revenues were offset with decreases in the change in fair value of investments by $827,456 and decreases in interest income by $404,306 due to the decline in market conditions in 2009. Other non-operating revenues increased by $360,080 due to the receipt of profit allocation from the San Leandro Surgery Center.

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 (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 2010 but will be held again in 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 year ended June 30, 2009, operating expenses for the District increased by $2,073,715. Grant expense increased $1,442,646 due to the expenditure of a one time grant to St. Rose Hospital for the purpose of obtaining matching federal funds to enable St. Rose Hospital to retire prior debt and provide capital for expanded services. Rental property operating costs increased $605,783 primarily resulting from a full year of operating expenses for San Leandro Medical Arts Building in 2009 compared to one month in 2008. Outside services decreased in 2009 by a total of $157,010 due to unusually high consulting services in 2008 as a result of retainer agreements with Goldman, Sachs & Co. and other consultants as described below and a $74,550 decrease in consulting due to the District retaining a part time Chief Executive Officer and outside contractors to manage the operations of the District (in 2008 the District was managed by EMC). The decrease was partially offset by the following increases in outside services for 2009: the District incurred $115,146 in election expense as a result of the November 2008 election of the District's Board of Directors, legal fees increased by $58,245 and investment fees increased by $42,301 due to professional investment management. Additionally, the District paid a $50,000 relocation assistance fee to a displaced tenant (Sazio's) in order to begin construction at Lake Chabot. Taxes decreased by $77,852 due to a revised estimated property tax liability for the year 2009 as compared to 2008.

| | For the Years Ended June 30, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| NET ASSETS: | | | |
| Invested in capital assets, net of related debt | $ 48,324,063 | $ 50,981,511 | $ 54,180,192 |
| Restricted | - | 26,168 | 857,445 |
| Unrestricted | 25,318,276 | 27,567,737 | 32,010,299 |
| Total net assets | $ 73,642,339 | $ 78,575,416 | $ 87,047,936 |

At June 30, 2010, net assets decreased by $4,933,077. Net assets invested in capital assets, net of related debt, decreased $2,657,448 due to depreciation expense and an increase in construction in progress cost for the new Eden Medical Office Building. Restricted net assets decreased by $26,168 due to the return of a deposit from the City of Dublin and Unrestricted net assets decreased by $2,249,461 due to a negative change in net assets offset by decreases in net assets invested in capital assets net of related debt.

At June 30, 2009, net assets decreased by $8,472,520. Net assets invested in capital assets, net of related debt, decreased $3,198,681 due to improvements to the Dublin Gateway Medical Center offset by depreciation expense. Restricted net assets decreased by $831,277 due to the completion of the senior center in the City of San Leandro and Unrestricted net assets decreased by $4,442,562 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, 2010 and 2009, the District's investment in capital assets totaled $96,526,461 and $99,183,909, respectively. During 2010, the District's additions to depreciable capital assets were $764,467 of which $106,485 were related to tenant improvements and $657,982 were related to common area building improvements. The balance of construction in progress at June 30, 2010 was $1,079,869. Of this amount $40,274 was related to the DGMC facility, $95,227 was related to the DGMC facility, and $944,368 was related to the District's new medical office building.

During 2009, the District's additions to depreciable assets were $2,851,833, of which $876,104 was related to tenant improvements and $1,873,512 was related to common area building improvements at the San Leandro Medical Arts building.

At both June 30, 2010 and 2009, the District had outstanding balance on a note 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 note 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 note was modified again 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 $7,702,397. 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 maturity date is October 1, 2012.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At June 30, 2010 the District has three rental properties for which income and expenses are included in the fiscal year 2010-2011 budget. The construction of approximately 8,000 square feet of temporary medical office space was completed in September 2009 on the Lake Chabot property and all but two suites were occupied. One of these two suites has been rented as of August 1, 2010 and we are currently negotiating terms of the lease for the last vacant suite. The District is expecting to sign a lease in the next month for two floors of the Dublin Gateway Medical Center (DGMC) which is expected to produce $1 million in rent revenue per year. The management company for the DGMC was also changed from Triad Partners to Bayside Realty Partners in May 2010 which will result in significant savings in property management fees. San Leandro Medical Arts Building has been reclassified from a "B" class building to a "C" class building based on new estimates of value by independent realtors and as a result of the current economic conditions. Rental income for the facility will be reduced by approximately $170,000 for fiscal year 2010-2011 as a result of the property classification. Currently, the facility is undergoing capital improvements for the heating, air conditioning and plumbing system. With the additional rental income from the temporary office spaces at Lake Chabot and DGMC, the District's overall operating income is expected to improve. The permanent medical office building on the District's Lake Chabot site has been approved by the Alameda County Planning Department and is currently awaiting permits before construction contract bids are accepted. Construction is expected to begin in late October or early November 2010. Current interest from area physicians suggests that the space will be fully leased prior to completion of the building shell in the late summer of 2011 and occupancy is expected to be in July 2012.

## 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, Castro Valley, CA 94546.

# Basic Financial Statements

**EDEN TOWNSHIP HEALTHCARE DISTRICT**

Balance Sheets

June 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and equivalents | $ 2,037,158 | $ 4,212,729 |
| Receivable - other | 200,000 | 28,017 |
| Accounts receivable - tenants | 389,185 | 377,045 |
| Interest receivable | 292,256 | 251,380 |
| Prepaid expense | 65,744 | 85,731 |
| Total current assets | 2,984,343 | 4,954,902 |
| Other assets: | | |
| Investments | 25,747,275 | 26,516,150 |
| Deposits | 2,350 | 26,168 |
| Goodwill, net | 3,252,586 | 3,484,913 |
| Other | 149,713 | 208,532 |
| Total other assets | 29,151,924 | 30,235,763 |
| Capital assets: | | |
| Nondepreciable | 16,933,694 | 16,499,930 |
| Depreciable, net | 79,592,767 | 82,683,979 |
| Total capital assets, net | 96,526,461 | 99,183,909 |
| **Total assets** | $ 128,662,728 | $ 134,374,574 |
| **Liabilities and net assets** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 238,892 | $ 818,646 |
| Taxes payable | - | 1,850 |
| Interest payable | 132,780 | 78,406 |
| Security deposits held | 28,633 | 22,623 |
| Unearned rent | 60,186 | 235,257 |
| Grants payable | 6,357,500 | 6,439,978 |
| Loan payable | - | 48,202,398 |
| Total current liabilities | 6,817,991 | 55,799,158 |
| Loan payable | 48,202,398 | - |
| **Total liabilities** | 55,020,389 | 55,799,158 |
| **Net assets** | | |
| Invested in capital assets, net of related debt | 48,324,063 | 50,981,511 |
| Restricted | - | 26,168 |
| Unrestricted | 25,318,276 | 27,567,737 |
| **Total net assets** | 73,642,339 | 78,575,416 |
| **Total liabilities and net assets** | $ 128,662,728 | $ 134,374,574 |

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

**EDEN TOWNSHIP HEALTHCARE DISTRICT**

Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| **Operating revenues:** | | |
| Interest income | $ 922,790 | $ 1,054,595 |
| Rental income | 3,159,857 | 2,994,078 |
| Tenant reimbursements | 460,692 | 412,867 |
| Total operating revenues | 4,543,339 | 4,461,540 |
| **Operating expenses:** | | |
| Purchased services | 1,995,372 | 1,356,241 |
| Rental property operating and maintenance | 1,100,653 | 1,099,636 |
| Taxes | 354,875 | 275,135 |
| Grants to service providers and community | 1,147,350 | 2,955,614 |
| Amortization | 329,919 | 330,027 |
| Depreciation | 3,855,679 | 4,553,032 |
| Total operating expenses | 8,783,848 | 10,569,685 |
| **Operating loss** | (4,240,509) | (6,108,145) |
| **Nonoperating revenues (expenses):** | | |
| Interest expense | (1,851,679) | (2,153,050) |
| Change in fair value of investments | 959,111 | (571,405) |
| Other gain | 200,000 | 360,080 |
| Total nonoperating revenues (expenses), net | (692,568) | (2,364,375) |
| **Change in net assets** | (4,933,077) | (8,472,520) |
| Net assets, beginning of year | 78,575,416 | 87,047,936 |
| Net assets, end of year | $ 73,642,339 | $ 78,575,416 |

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

**EDEN TOWNSHIP HEALTHCARE DISTRICT**

Statements of Cash Flows

For the Years Ended June 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Rental receipts | $ 3,463,165 | $ 3,092,787 |
| Interest income | 881,914 | 951,525 |
| Payments to suppliers | (3,262,332) | (2,340,631) |
| Grant payments | (1,201,811) | (3,100,080) |
| Tax payments | (356,725) | (369,308) |
| **Net cash used in operating activities** | (475,789) | (1,765,707) |
| **Cash flows from capital and related financing activities:** | | |
| Proceeds from loans | - | 1,078,617 |
| Payment of loan fees | (16,907) | - |
| Interest paid | (1,797,305) | (1,196,109) |
| Purchase of capital assets | (1,613,557) | (4,275,827) |
| **Net cash used in capital and related financing activities** | (3,427,769) | (4,393,319) |
| **Cash flows from investing activities:** | | |
| Purchase of investments | (45,905,198) | (39,421,608) |
| Proceeds from sale of investments | 47,633,184 | 28,346,618 |
| Proceeds from interest in surgery center | - | 360,080 |
| **Net cash provided by (used in) investing activities** | 1,727,986 | (10,714,910) |
| **Net change in cash and cash equivalents** | (2,175,572) | (16,873,936) |
| **Cash and cash equivalents, beginning of the year** | 4,212,729 | 21,086,665 |
| **Cash and cash equivalents, end of the year** | $ 2,037,157 | $ 4,212,729 |
| **Reconciliation of operating loss to net cash used in operating activities:** | | |
| Operating loss | $ (4,240,509) | $ (6,108,145) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation | 3,855,679 | 4,553,032 |
| Amortization | 329,919 | 330,027 |
| Changes in assets and liabilities: | | |
| Receivable - other | 28,017 | (22,827) |
| Accounts receivable - tenants | (12,140) | (325,747) |
| Interest receivable | (40,876) | (103,070) |
| Deposits | 23,818 | (4,538) |
| Prepaid expenses | 19,987 | (57,783) |
| Other assets | (21,866) | (105,302) |
| Accounts payable and accrued liabilities | (164,428) | 278,331 |
| Taxes payable | (1,850) | (94,173) |
| Security deposits payable | 6,010 | (359) |
| Unearned rent | (175,071) | 16,486 |
| Grants payable | (82,478) | (121,639) |
| Net cash used in operating activities | $ (475,788) | $ (1,765,707) |
| **Supplemental disclosure of noncash investing, capital or financing activities:** | | |
| Acquisition of capital assets on accounts payable | $ - | $ 415,326 |
| Change in fair value of investments | 959,111 | 571,405 |
| Interest expense financed by loan payable | - | 1,026,670 |

The accompanying notes are an integral part of these 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 District wholly owns Dublin Gateway, LLC and Dublin Gateway, Inc. 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 it's ownership of Dublin Gateway, LLC, the operations of TDG LP are blended with the District's.

The District owns three medical office properties; Dublin Gateway Medical Center, 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 and interest income earned on investments. Non-operating revenues include revenue related to sales of capital assets, fair value changes on investments and revenue related to distributions from interests in medical facilities. Operating expenses are all expenses incurred to provide operating revenue, including grants to service providers that are funded by interest income.

## (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.

### *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.

## (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.

### *Reclassifications*

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

### *Effects of New Pronouncements*

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement is intended to improve how state and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. This Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements. This statement is effective for the District's fiscal year ended June 30, 2010. The District applied the provisions of this statement during the fiscal year ended June 30, 2010 and determined there was no effect on the 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, 2010 and 2009 the District had cash and equivalents on deposit at banks of $1,051,916 and $1,708,837 that were covered by depository insurance or collateralized by the pledging financial institution.

## (3) CASH AND INVESTMENTS (continued)

At June 30, 2010 and 2009, the balances on deposit at financial institutions in excess of federal depository insurance limits of $250,000 totaled $910,161 and $1,976,056, 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, 2010 and 2009, investments consisted of the following at fair value:

| | 2010 | 2009 |
|---|---|---|
| Contract with insurance company | $ 1,681,665 | $ 1,681,665 |
| Certificates of deposit | - | 1,055,695 |
| US Treasury notes | 8,198,402 | 7,447,418 |
| US government agency securities | 5,470,060 | 4,775,311 |
| Corporate bonds | 10,397,148 | 11,556,061 |
| Total investments | $ 25,747,275 | $ 26,516,150 |

### *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, 2010 and 2009, 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.

## (3) CASH AND INVESTMENTS (continued)

### *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, 2010 and 2009 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, 2010 and 2009, scheduled maturities of fixed income securities consisted of the following:

| | 2010 | 2009 |
|---|---|---|
| Maturing in | | |
| Less than 1 year | $ 1,670,109 | $ 3,659,592 |
| 1 year to 5 years | 21,318,968 | 21,174,893 |
| 5 years to 10 years | 2,758,198 | 1,681,665 |
| Total | $ 25,747,275 | $ 26,516,150 |

At June 30 2009, the District held investments in callable and floating rate federal agency issues in the amount of $736,996. Callable and floating rate issues are highly sensitive to interest rate changes and the federal agency issues are callable at par at a set date prior to maturity based on these rate changes. In addition, at June 30, 2010 and 2009, respectively, the District held an investment in an adjustable corporate bond issue in the amount of $498,755 and $1,936,020 which adjusts based on the consumer price index.

### *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 investments at June 30, 2010 and 2009 that had ratings of less than A by national rating agencies 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.

## (3) CASH AND INVESTMENTS (continued)

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, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| AAA | $ 14,609,698 | $ 13,347,959 |
| AA1-AA3 | 1,733,878 | 1,139,299 |
| A1-A3 | 6,543,042 | 7,780,987 |
| B1 - BAA2 | 1,178,992 | 1,510,543 |
| Not rated | 1,681,665 | 2,737,362 |
| Total | $ 25,747,275 | $ 26,516,150 |

### *Concentration of Credit Risk*

The District diversifies its portfolio as required by the California Government Code. At June 30, 2010 and 2009, more than 5 percent of the District's investments are invested in the following.

| | 2010 | 2009 |
|---|---|---|
| Federal National Mortgage Association | 17.6% | 13.9% |
| Morgan Stanley Corporate Bond | 8.3% | - |
| New York Life | 7.0% | 6.5% |
| Federal Home Loan Mortgage Corporation | 5.1% | 7.3% |
| John Hancock Life Insurance Company | - | 7.5% |
| International Lease Finance Corporation | - | 6.3% |
| National City Corporation | - | 7.6% |

## (4) CAPITAL ASSETS

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

| | Balance July 1, 2009 | Additions | Transfers | 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 | 16,499,930 | 1,094,536 | (660,772) | 16,933,694 |
| 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 | 97,801,580 | 103,695 | 660,772 | 98,566,047 |
| Less: Accumulated depreciation | (15,117,601) | (3,855,679) | - | (18,973,280) |
| Total capital assets being depreciated, net | 82,683,979 | (3,751,984) | 660,772 | 79,592,767 |
| Total capital assets, net | $ 99,183,909 | $ (2,657,448) | $ - | $ 96,526,461 |

Changes in capital assets consist of the following for the year ended June 30, 2009:

| | Balance July 1, 2008 | Additions | Disposals | Balance June 30, 2009 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 15,853,825 | $ - | $ - | $ 15,853,825 |
| Construction in progress | 38,300 | 607,805 | - | 646,105 |
| Total capital assets not being depreciated | 15,892,125 | 607,805 | - | 16,499,930 |
| Capital assets being depreciated: | | | | |
| Land improvements | $ 480,072 | $ 65,403 | $ - | $ 545,475 |
| Building | 89,353,697 | 1,873,512 | - | 91,227,209 |
| Tenant improvements | 1,612,095 | 876,104 | (3,533) | 2,484,666 |
| Equipment | 3,520,756 | 36,814 | (13,340) | 3,544,230 |
| Total capital assets being depreciated | 94,966,620 | 2,851,833 | (16,873) | 97,801,580 |
| Less: Accumulated depreciation | (10,581,442) | (4,553,032) | 16,873 | (15,117,601) |
| Total capital assets being depreciated, net | 84,385,178 | (1,701,199) | - | 82,683,979 |
| Total capital assets, net | $ 100,277,303 | $ (1,093,394) | $ - | $ 99,183,909 |

## (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.

| | 2010 | 2009 |
|---|---|---|
| Goodwill | $ 4,646,553 | $ 4,646,553 |
| Less accumulated amortization | (1,393,967) | (1,161,640) |
| Goodwill, net | $ 3,252,586 | $ 3,484,913 |

Amortization expense related to goodwill totaled $232,327 for both the years ended June 30, 2010 and 2009.

## (6) LONG-TERM LIABILITIES

At June 30, 2010, and 2009, 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.

## (6) LONG-TERM LIABILITIES (Continued)

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

| | July 1, 2009 | Additions | Retirements | June 30, 2010 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Bank loan | $ 48,202,398 | $ - | $ - | $ 48,202,398 | $ - |

Variable rate interest charged at June 30, 2010 was 3.36% on the outstanding balance.

Changes in the District's long-term liabilities for the fiscal year ended June 30, 2009:

| | July 1, 2008 | Additions | Retirements | June 30, 2009 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Bank loan | $ 46,097,111 | $ 2,105,287 | $ - | $ 48,202,398 | $48,202,398 |

Variable rate interest charged at June 30, 2009 was 1.97% on $19 million and 4.82% on the remaining balance.

The District's annual debt service requirement to maturity as of June 30, 2010, is as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| Fiscal year ending | | | |
| 2011 | $ - | $ 1,619,601 | $ 1,619,601 |
| 2012 | - | 1,619,601 | 1,619,601 |
| 2013 | 48,202,398 | 404,900 | 48,607,298 |
| | $ 48,202,398 | $ 3,644,101 | $ 51,846,499 |

## (6) LONG-TERM LIABILITIES (Continued)

***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.

*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, 2010 and 2009, the balance of the grant payable is $1,000,000.

In fiscal year 2004 he 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, 2010 and 2009, included in grants payable is a total amount of $5,000,000 outstanding on this grant.

## (8) 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, 2009, the District reported $26,168 in restricted net assets. The restriction related to the restricted escrow account established in fiscal year 2007 for the construction of the a senior center in City of San Leandro and the DGMC facility and restricted deposits held for the City of Dublin.

***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.

## (9) 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 |
|---|---|---|---|---|
| 2011 | 93,933 | 754,559 | 2,385,678 | 3,234,170 |
| 2012 | 93,933 | 727,828 | 2,456,476 | 3,278,237 |
| 2013 | 26,838 | 693,235 | 2,529,119 | 3,249,192 |
| 2014 | - | 293,534 | 2,604,210 | 2,897,744 |
| 2015 | - | 187,152 | 2,640,838 | 2,827,990 |
| Thereafter | - | 16,226 | 2,378,708 | 2,394,934 |
| Total minimum lease rentals | $ 214,704 | $ 2,672,534 | $ 14,995,029 | $ 17,882,267 |

## (10) 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.

If the option is exercised, the purchase price is 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. This would represent a reduction of approximately $17,500,000 from the book value of SLH based on the District's records.

EMC (Sutter Health) filed a demand for arbitration pursuant to the terms of the lease agreement in October 2009 and simultaneously filed a civil action in the Superior Court of Alameda County seeking specific performance, delay damages of $5,000,000, a constructive trust and declaratory relief against the District. The arbitration was unsuccessful. In March 2010, the District filed a cross-action against Sutter and EMC alleging that the 2008 amended and restated lease and hospital operations agreement is invalid and unenforceable. The District and Sutter/EMC have filed cross-motions for summary adjudication, which is scheduled to be heard by the court on October 22, 2010, and a bench trial is set for November 22, 2010.

No assurance can be given that this matter will be resolved in the District's favor or without incurring material losses and litigation costs. At this time an estimate of the potential loss associated with the damages claimed by EMC (Sutter Health) can not be estimated but may materially impact the District.

## (11) 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.

## (12) SUBSEQUENT EVENT

The District's current financing for the Dublin Gateway Medical Center matured on September 1, 2010. The balance due on the note at June 30, 2010 was $48,202,398. The modification agreement was executed on September 27, 2010 to extend the maturity date to October 1, 2012 and increase the total security interest of the bank.

**Supplemental Information**

**EDEN TOWNSHIP HEALTHCARE DISTRICT**

Combining Balance Sheet

June 30, 2010

(With Comparative Totals as of June 30, 2009)

| | Eden Township Healthcare District | Triad Dublin Gateway, LP | Combined Total | Combined 2009 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets: | | | | |
| Cash and equivalents | $ 1,296,073 | $ 741,085 | $ 2,037,158 | $ 4,212,729 |
| Receivable - other | 200,000 | - | 200,000 | 28,017 |
| Accounts receivable - tenants | 6,016 | 383,169 | 389,185 | 377,045 |
| Interest receivable | 288,710 | 3,546 | 292,256 | 251,380 |
| Prepaid expense | 41,428 | 24,316 | 65,744 | 85,731 |
| Total current assets | 1,832,227 | 1,152,116 | 2,984,343 | 4,954,902 |
| Other assets: | | | | |
| Investments | 25,747,275 | - | 25,747,275 | 26,516,150 |
| Deposits | 2,350 | - | 2,350 | 26,168 |
| Goodwill, net | 3,252,586 | - | 3,252,586 | 3,484,913 |
| Other | - | 149,713 | 149,713 | 208,532 |
| Total other assets | 29,002,211 | 149,713 | 29,151,924 | 30,235,763 |
| Capital assets: | | | | |
| Nondepreciable | 5,893,420 | 11,040,274 | 16,933,694 | 16,499,930 |
| Depreciable, net | 16,796,560 | 62,796,207 | 79,592,767 | 82,683,979 |
| Total capital assets, net | 22,689,980 | 73,836,481 | 96,526,461 | 99,183,909 |
| **Total assets** | $ 53,524,418 | $ 75,138,310 | $ 128,662,728 | $ 134,374,574 |
| **Liabilities and net assets** | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | $ 235,626 | $ 3,266 | $ 238,892 | $ 818,646 |
| Taxes payable | - | - | - | 1,850 |
| Interest payable | - | 132,780 | 132,780 | 78,406 |
| Security deposits held | 12,156 | 16,477 | 28,633 | 22,623 |
| Unearned rent | 45,502 | 14,684 | 60,186 | 235,257 |
| Grants payable | 6,357,500 | - | 6,357,500 | 6,439,978 |
| Loan payable | - | - | - | 48,202,398 |
| Total current liabilities | 6,650,784 | 167,207 | 6,817,991 | 55,799,158 |
| Loan payable | - | 48,202,398 | 48,202,398 | - |
| **Total liabilities** | 6,650,784 | 48,369,605 | 55,020,389 | 55,799,158 |
| **Net assets** | | | | |
| Invested in capital assets, net of related debt | 22,689,980 | 25,634,083 | 48,324,063 | 50,981,511 |
| Restricted | - | - | - | 26,168 |
| Unrestricted | 24,183,654 | 1,134,622 | 25,318,276 | 27,567,737 |
| **Total net assets** | 46,873,634 | 26,768,705 | 73,642,339 | 78,575,416 |
| **Total liabilities and net assets** | $ 53,524,418 | $ 75,138,310 | $ 128,662,728 | $ 134,374,574 |

**EDEN TOWNSHIP HEALTHCARE DISTRICT**

Combining Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2010

(With Comparative Totals For the Year Ended June 30, 2009)

| | Eden Township Healthcare District | Triad Dublin Gateway, LP | Combined Total | Combined 2009 |
|---|---|---|---|---|
| **Operating revenues** | | | | |
| Interest income | $ 889,302 | $ 33,488 | $ 922,790 | $ 1,054,595 |
| Rental income | 929,405 | 2,230,452 | 3,159,857 | 2,994,078 |
| Tenant reimbursements | - | 460,692 | 460,692 | 412,867 |
| Total operating revenues | 1,818,707 | 2,724,632 | 4,543,339 | 4,461,540 |
| **Operating expenses** | | | | |
| Purchased services | 1,995,372 | - | 1,995,372 | 1,356,241 |
| Rental property operating and maintenance | 498,268 | 602,385 | 1,100,653 | 1,099,636 |
| Taxes | - | 354,875 | 354,875 | 275,135 |
| Grants to service providers and community | 1,147,350 | - | 1,147,350 | 2,955,614 |
| Amortization | 232,328 | 97,591 | 329,919 | 330,027 |
| Depreciation | 1,312,479 | 2,543,200 | 3,855,679 | 4,553,032 |
| Total operating expenses | 5,185,797 | 3,598,051 | 8,783,848 | 10,569,685 |
| **Operating loss** | (3,367,090) | (873,419) | (4,240,509) | (6,108,145) |
| **Nonoperating revenues (expenses):** | | | | |
| Interest expense | - | (1,851,679) | (1,851,679) | (2,153,050) |
| Change in fair value of investments | 959,111 | - | 959,111 | (571,405) |
| Other gain | 200,000 | - | 200,000 | 360,080 |
| Net nonoperating revenues (expenses) | 1,159,111 | (1,851,679) | (692,568) | (2,364,375) |
| **Net loss before transfers** | (2,207,979) | (2,725,098) | (4,933,077) | (8,472,520) |
| Transfer in | - | 869,100 | 869,100 | 2,141,445 |
| Transfer out | (869,100) | - | (869,100) | (2,141,445) |
| **Change in net assets** | (3,077,079) | (1,855,998) | (4,933,077) | (8,472,520) |
| **Net assets, beginning of year** | 49,950,713 | 28,624,703 | 78,575,416 | 87,047,936 |
| **Net assets, end of year** | $ 46,873,634 | $ 26,768,705 | $ 73,642,339 | $ 78,575,416 |

**EDEN TOWNSHIP HEALTHCARE DISTRICT**
Combining Statement of Cash Flows
For the Year Ended June 30, 2010
(With Comparative Totals For the Year Ended June 30, 2009)

| | Eden Township Healthcare District | Triad Dublin Gateway, LP | Combined Total | Combined 2009 |
|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | |
| Rental receipts | $ 1,015,220 | $ 2,447,945 | $ 3,463,165 | $ 3,092,787 |
| Interest income received | 851,972 | 29,942 | 881,914 | 951,525 |
| Payments to suppliers | (2,628,201) | (634,131) | (3,262,332) | (2,340,631) |
| Grant payments | (1,201,811) | - | (1,201,811) | (3,100,080) |
| Tax payments | - | (356,725) | (356,725) | (369,308) |
| **Net cash provided by (used in) operating activities** | (1,962,820) | 1,487,031 | (475,789) | (1,765,707) |
| **Cash flows from capital and related financing activities:** | | | | |
| Proceeds from loans | - | - | - | 1,078,617 |
| Payment of loan fees | - | (16,907) | (16,907) | - |
| Interest paid | - | (1,797,305) | (1,797,305) | (1,196,109) |
| Purchase of capital assets | (1,157,065) | (456,492) | (1,613,557) | (4,275,827) |
| Interfund transfers | (869,100) | 869,100 | - | - |
| **Net cash used in capital and related financing activities** | (2,026,165) | (1,401,604) | (3,427,769) | (4,393,319) |
| **Cash flows from investing activities:** | | | | |
| Purchase of investments | (45,905,198) | - | (45,905,198) | (39,421,608) |
| Proceeds from sale of investments | 47,633,184 | - | 47,633,184 | 28,346,618 |
| Proceeds from interest in surgery center | - | - | - | 360,080 |
| **Net cash provided by (used in) investing activities** | 1,727,986 | - | 1,727,986 | (10,714,910) |
| **Net change in cash and cash equivalents** | (2,260,999) | 85,427 | (2,175,572) | (16,873,936) |
| **Cash and cash equivalents, beginning of the year** | 3,557,072 | 655,657 | 4,212,729 | 21,086,665 |
| **Cash and cash equivalents, end of the year** | $ 1,296,073 | $ 741,084 | $ 2,037,157 | $ 4,212,729 |
| **Reconciliation of operating loss to net cash provided by (used in) operating activities:** | | | | |
| Operating loss | $ (3,367,090) | $ (873,419) | $ (4,240,509) | $ (6,108,145) |
| Adjustments to reconcile operating loss to net cash provided by (used in) operating activities: | | | | |
| Depreciation | 1,312,479 | 2,543,200 | 3,855,679 | 4,553,032 |
| Amortization | 232,327 | 97,592 | 329,919 | 330,027 |
| Changes in assets and liabilities: | | | | |
| Receivable - other | 28,017 | - | 28,017 | (22,827) |
| Accounts receivable - tenants | 75,718 | (87,858) | (12,140) | (325,747) |
| Interest receivable | (37,330) | (3,546) | (40,876) | (103,070) |
| Deposits | 2,188 | 21,630 | 23,818 | (4,538) |
| Prepaid expenses | 19,372 | 615 | 19,987 | (57,783) |
| Other assets | - | (21,866) | (21,866) | (105,302) |
| Accounts payable and accrued liabilities | (153,933) | (10,495) | (164,428) | 278,331 |
| Taxes payable | - | (1,850) | (1,850) | (94,173) |
| Security deposits payable | 6,010 | - | 6,010 | (359) |
| Unearned rent | 1,900 | (176,971) | (175,071) | 16,486 |
| Grants payable | (82,478) | - | (82,478) | (121,639) |
| **Net cash provided by (used in) operating activities** | $ (1,962,820) | $ 1,487,032 | $ (475,788) | $ (1,765,707) |
| **Supplemental disclosure of noncash investing, capital or financing activities:** | | | | |
| Acquisition of capital assets on accounts payable | $ - | $ - | $ - | $ 415,326 |
| Change in fair value of investments | 959,111 | - | 959,111 | 571,405 |
| Interest expense financed by loan payable | - | - | - | 1,026,670 |