

Eden Township Healthcare District

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

June 30, 2015 and 2014



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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Eden Township Healthcare District
Castro Valley, California

We have audited the accompanying consolidated financial statements of Eden Township Healthcare District (the "District"), as of and for the year ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2015 and 2014, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 7 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 our 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining statements of net position and revenues, expenses and changes in net position are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Armanino LLP
Armanino^{LLP}
San Ramon, California

November 2, 2015

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, 2015 and 2014.

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 position, the statements of revenues, expenses and changes in net position 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 Position 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 Position 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,		
	2015	2014	2013
ASSETS:			
Current assets	\$ 3,969,358	\$ 3,876,091	\$ 4,285,000
Other non-current assets	10,443,030	10,591,116	11,323,437
Capital assets	74,125,518	77,591,798	80,672,262
Total assets	<u>\$ 88,537,906</u>	<u>\$ 92,059,005</u>	<u>\$ 96,280,699</u>
LIABILITIES			
Current liabilities	\$ 47,513,302	\$ 569,893	\$ 2,223,199
Non-current liabilities	15,738,683	44,917,367	44,917,367
Total liabilities	<u>63,251,985</u>	<u>45,487,260</u>	<u>47,140,566</u>
NET POSITION	<u>25,285,921</u>	<u>46,571,745</u>	<u>49,140,136</u>
Total liabilities and net position	<u>\$ 88,537,906</u>	<u>\$ 92,059,005</u>	<u>\$ 96,280,702</u>

EDEN TOWNSHIP HEALTHCARE DISTRICT
Management's Discussion and Analysis
Required Supplementary Information (Unaudited)

Net position at June 30, 2015 decreased to \$25,285,921 from \$46,571,745 in 2014. Capital assets decreased by \$3,466,280 primarily due to the current year depreciation expense of \$3,788,074 which was offset with new investments in tenant and building improvements. Of these investments \$138,088 were tenant improvements and \$64,667 were building improvements at the San Leandro Medical Arts Building (SLMAB), \$22,553 were building improvements at the Eden Medical Building (EMB) and \$51,526 were building improvements at Dublin Gateway. Additionally construction in progress increased \$44,960. Of this amount \$55,113 was for building improvements at the Eden Medical Building (EMB), and \$41,430 was for tenant improvements at the San Leandro Medical Arts Building (SLMAB). These increases were offset with a decrease of \$51,583 for the Dublin Gateway Building, as this amount was building improvements which were capitalized in 2015. Other non-current assets decreased by \$148,086 primarily due to decreases in goodwill of \$295,483 and pre-paid lease commissions and loan fees of \$72,218. These decreases were offset with an increase of \$219,614 in investments as the District deposited excess operating cash during the year. In 2015 the District sold their interest in the San Leandro Surgery Center. As a result of the sale the remaining goodwill associated with the original acquisition was written off. Current liabilities increased by \$46,943,409. This was primarily due to re-classing the Dublin Building loan payable of \$44,917,367 from non-current liabilities to current liabilities, as the building loan will mature in February 2016. Additionally the District owes Sutter Health an annual payment of \$1,967,335 in June 2016 for the damages awarded per the settlement. Non-current liabilities decreased by \$29,178,684. As mentioned above, the decrease was primarily attributable to the re-class of the Dublin Building loan of \$44,917,367 to current liabilities. This decrease was offset with the addition of \$19,673,353 for the damages awarded settlement to Sutter Health less the first payment of \$1,967,335 made in June 2015, less \$1,967,335 which is the payment due in June 2016 and re-classed to current liabilities. Accounts payable increased \$76,246 and grants payable increased \$15,000. These increases were offset with a decrease of \$37,377 in unearned rent. The increase in accounts payable was due to the accrual of expenses related to the construction of building improvements to the second floor of the EMB.

	2015	2014	2013
OPERATING RESULTS:			
Operating revenues:			
Rental income	\$ 4,707,863	\$ 4,305,697	\$ 3,763,330
Tenant reimbursements	947,041	838,740	669,091
	<u>5,654,904</u>	<u>5,144,437</u>	<u>4,432,421</u>
Operating expenses:			
Salaries and benefits	\$ 341,238	\$ 364,595	\$ 367,255
Purchased services	569,205	403,067	1,063,169
Rental property operating and maintenance	1,283,497	1,267,583	1,142,905
Taxes	394,663	397,616	382,017
Grants to service providers	223,330	186,819	134,195
Amortization	188,794	178,171	153,548
Depreciation	3,788,073	3,894,976	3,518,807
	<u>6,788,800</u>	<u>6,692,826</u>	<u>6,761,896</u>
Operating profit/(loss)	<u>(1,133,896)</u>	<u>(1,548,390)</u>	<u>(2,329,475)</u>
Net nonoperating revenues (expenses)	<u>(20,151,927)</u>	<u>(1,020,000)</u>	<u>(1,125,378)</u>
Change in net position	<u>(21,285,823)</u>	<u>(2,568,390)</u>	<u>(3,454,853)</u>
Net position, beginning of year	46,571,744	49,140,135	52,594,988
Net position, end of year	<u>\$ 25,285,921</u>	<u>\$ 46,571,745</u>	<u>\$ 49,140,135</u>

EDEN TOWNSHIP HEALTHCARE DISTRICT
Management's Discussion and Analysis
Required Supplementary Information (Unaudited)

For the year ending June 30, 2015, the District's operating loss was \$1,133,985 compared to an operating loss of \$1,548,390 for the year ending June 30, 2014. This was due to increased revenues of \$5,654,905 compared to the prior year's revenue of \$5,144,437. Dublin Gateway's revenue increased \$475,440 and was the primary building contributing to the increase. Of this increase \$179,300 is from a full year of rental income from an existing tenant, \$166,315 is from a new tenant who took occupancy in August 2014 and \$119,822 is from annual rental increases from existing tenants. Eden Medical Building's revenue increased \$46,245 of which \$37,270 is from a full year of revenue from two existing tenants which took occupancy in October 2013 and \$3,795 is from annual rental increases from existing tenants. San Leandro Medical Arts Building had a decrease of \$11,216 which was due to a combination of tenant retirement, tenants moving to a smaller suite and new tenants with lower rents for longer lease terms.

For the year ending June 30, 2015, operating expenses increased by \$95,974 to \$6,788,800 from the prior year's expenses of \$6,692,826. Purchased services increased \$166,138. This was primarily due to higher legal fees of \$119,681 and higher consulting fees of \$48,331. Most of these expenses were related to the damages award settlement negotiations with Sutter. In FY15 the District hired a financial advisor to explore refinancing opportunities for the Districts outstanding loan with US Bank. Refinancing the building would be necessary if the District chose to sell part of Dublin Gateway to satisfy the debt owed to Sutter Health. Rental property operating and maintenance increased \$15,914. The increase is primarily attributable to the San Leandro Medical Arts Building which had an increase of \$36,789 and was offset with decreased expenses of \$13,024 for the Eden Medical Building and \$7,850 for the Dublin building. The primary expenses contributing to the increase for the SLMAB was air duct cleaning of \$21,810, elevator license and inspection fees of \$4,782, building security of \$4,686 and the installation of a bike rack for \$3,260. Building security increased due to the addition of a mid-day patrol shift. The decrease in Eden Medical Building's expense was mainly attributable to lower HVAC repairs of \$6,004, lower janitorial service of \$5,313 and lower fire alarm repair expense of \$4,905. These decreases were offset with an increase in sewage service charges of \$5,278. Sewage service charges are a new expense for the building and the annual bills for FY14 and FY15 were received in FY15. The decrease in Dublin's expense was primarily due to lower legal fees of \$42,616 which was offset with increased utilities of \$15,550, garbage of \$9,763 and management fees of \$10,044. Legal fees in FY14 were significantly higher than FY15 due to new tenant lease negotiations. Increased utilities, garbage and management fees are related to increased tenant occupancy in FY15. Grant awards also increased \$36,511 in FY15. These increases were offset with lower depreciation and amortization expense of \$96,280 along with lower salaries and wages of \$23,357. Salaries and wages were lower in FY15 due to the reversal of accrued extended sick leave expense. This is a benefit which is not guaranteed and therefore the accrued expense was reversed.

Net non-operating expenses increased by \$19,131,927 in FY15. This increase was primarily due to the recognition of the damages awarded to Sutter in the amount of \$19,673,353 which will be paid over 10 years. Additionally, the District sold its interest in the San Leandro Surgery Center in April 2014. The District received \$901,500 from the sale which was offset with the write off of the remaining goodwill of \$263,536. A final partnership distribution of \$112,000 was also received compared to \$50,000 in FY14. The loss on the fair value of investments increased \$107,196 and interest expense increased \$31,740. The increase in interest expense was primarily due to the interest payment of \$49,675 associated with the first damage award payment to Sutter. Interest income decreased \$19,602.

EDEN TOWNSHIP HEALTHCARE DISTRICT
Management's Discussion and Analysis
Required Supplementary Information (Unaudited)

	For the Years Ended June 30,		
	2015	2014	2013
NET POSITION:			
Net Investment in capital assets, net of related debt	\$ 11,502,133	\$ 32,674,431	\$ 35,754,895
Restricted	3,330,302	3,336,934	3,354,019
Unrestricted	10,453,485	10,560,380	10,031,222
Total net position	\$ 25,285,921	\$ 46,571,745	\$ 49,140,136

At June 30, 2015, total net position decreased by \$21,285,824. Net investment in capital assets, net of related debt decreased by \$21,172,298 due to the recognition of the damages awarded to Sutter Health, and depreciation expense which was offset with increases to tenant and building improvements and construction in progress. Restricted net assets decreased by \$6,632. Unrestricted net assets decreased by \$106,895.

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, 2015 and 2014, the District's investment in capital assets totaled \$74,125,520 and \$77,591,798 respectively. During 2015, the District's reduction to depreciable capital assets was \$397,412. The reduction was primarily due to the retirement of fully depreciated assets in 2015. Of the assets retired, \$549,339 was for the temporary office structure used by the District Office during construction of the EMB building, \$80,176 was for tenant improvements and \$30,048 was for equipment. These decreases were offset with increases to building improvements of \$138,747 and tenant improvements of \$138,088. The balance of construction in progress at June 30, 2015 was \$135,068 which was an increase of \$44,961 during the year.

At June 30, 2014 the District's outstanding balance for loans payable was \$44,917,367 compared to \$44,917,367 as of June 30, 2013. At June 30, 2012 the loan was classified as short-term since the loan was due in February, 2013. The decrease of \$3,175,706 was due to principal payments on the Dublin Gateway loan of \$175,706 during fiscal year coupled with a lump sum payment of \$5,000,000 when the loan was refinanced in February 2013. These principal payments were offset with an additional \$2,000,000 added to the existing line of credit which is secured by the Eden Medical Building, San Leandro Medical Arts Building and \$3,326,397 of marketable securities. 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 1, 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 \$7,702,398. 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 was secured by the San Leandro Medical Arts Building and \$3,300,000 of marketable securities. The 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. A fourth modification was made on March 14, 2012 where the District is required to maintain unencumbered liquid assets of at least \$15,000,000. A fifth modification was made on September 28, 2012 which extended the maturity date of the note and line of credit from October 1, 2012 to February 1, 2013. A sixth modification was made on January 31, 2013 where the notes total commitment was reduced to \$35,214,969 and the District made a principal payment of \$5,000,000. The notes maturity date was extended to February 1, 2016 and the District was no longer required to pay down the principal based on 50% of all excess cash flow from Dublin Gateway Center.

EDEN TOWNSHIP HEALTHCARE DISTRICT
Management's Discussion and Analysis
Required Supplementary Information (Unaudited)

The required unencumbered liquid assets were also reduced from \$15,000,000 to \$8,000,000. An advance of \$2,000,000 was extended to the existing line of credit bringing the new principal balance to \$9,702,397. The line of credit was secured by the Eden Medical Building, San Leandro Medical Arts and marketable securities of \$3,326,397. The maturity date is February 1, 2016.

The District also has a line of credit with a lender for a maximum amount of \$6,000,000 due upon demand, bearing an interest rate of Libor plus 1.75%. The loan is secured by the District's investments that the lender has under its possession and control. The loan balance was \$0 as of June 30, 2015 and 2014, respectively.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

On June 30, 2015, the District has three rental properties for which income and expenses are included in the fiscal year 2015-2016 budget. The San Leandro Medical Arts Building continues to be occupied by long-term tenants and a few newer tenants with about 15% vacancy. The building produces a profit and this expected to increase as rents gradually increase. Capital investments continue to be made and rents are slowly recovering to market. The warm shell of the new Eden Medical Building construction was substantially complete by March 2012. The tenant improvements were completed in late August 2012 and the first tenants occupied their suites in September 2012. The Eden Medical Building has had positive cash flow from first occupancy. In the fall of 2013, two new tenants occupied their suites on the third floor, bringing the vacancy to just below 40%. In addition, the last remaining space (2nd floor of 4000 Dublin Boulevard, about 22,800 square feet) is leased and should start producing revenue mid-2016. The District's rental revenues should continue to increase as rents firm up over the entire Bay Area.

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 20400 Lake Chabot Road Suite 104, Castro Valley, CA 94546.

BASIC FINANCIAL STATEMENTS

EDEN TOWNSHIP HEALTHCARE DISTRICT
Statements of Net Assets
June 30, 2015 and 2014

	2015	2014
Assets		
Current assets:		
Cash and equivalents	\$ 357,377	\$ 281,187
Restricted cash and investments	3,329,552	3,336,184
Receivable - other	31,458	25,927
Accounts receivable - tenants	49,150	53,089
Interest receivable	145,921	134,079
Prepaid expense	55,899	45,624
Total current assets	3,969,357	3,876,091
Other assets:		
Investments	8,574,375	8,354,761
Deposit	750	750
Goodwill, net	95,221	390,704
Notes Receivable	1,150,000	1,150,000
Other	622,683	694,901
	10,443,029	10,591,116
Capital assets:		
Nondepreciable	13,140,150	13,095,189
Depreciable	60,985,369	64,496,609
Total capital assets, net	74,125,520	77,591,798
 Total assets	 \$ 88,537,906	 \$ 92,059,005
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 221,781	\$ 145,535
Taxes payable	-	-
Interest payable	94,901	93,808
Security deposits held	173,507	169,762
Unearned rent	45,911	83,288
Grants payable	92,500	77,500
Settlement payable	1,967,335	-
Loan payable	44,917,367	-
Total current liabilities	47,513,302	569,893
 Loan payable	15,738,683	44,917,367
Total non-current liabilities	15,738,683	44,917,367
Total liabilities	63,251,985	45,487,259
Net position		
Invested in capital assets, net of related debt	11,502,133	32,674,431
Restricted	3,330,302	3,336,934
Unrestricted	10,453,485	10,560,380
Total net position	25,285,921	46,571,745
Total liabilities and net position	\$ 88,537,906	\$ 92,059,005

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

EDEN TOWNSHIP HEALTHCARE DISTRICT
 Statements of Revenues, Expenses and Changes in Net Position
 For the Years Ended June 30, 2015 and 2014

	2015	2014
Operating revenues		
Rental income	\$ 4,707,863	\$ 4,305,697
Tenant Reimbursements	<u>947,041</u>	<u>838,740</u>
Total operating revenues	<u>5,654,904</u>	<u>5,144,437</u>
Operating expenses		
Salaries and benefits	341,238	364,595
Purchased services	569,205	403,067
Rental property operating and maintenance	1,283,497	1,267,583
Taxes	394,663	397,616
Grants to service providers and community	223,330	186,819
Amortization	188,794	178,171
Depreciation	<u>3,788,073</u>	<u>3,894,976</u>
Total operating expenses	<u>6,788,800</u>	<u>6,692,827</u>
Operating loss	<u>(1,133,896)</u>	<u>(1,548,390)</u>
Nonoperating revenues (expenses):		
Interest income	302,709	322,311
Interest expense	(1,377,901)	(1,346,161)
Change in fair value of investments	(153,346)	(46,150)
Settlement Loss	(19,673,353)	
Gain from sale of partnership interest, net	637,964	
Other gain	<u>112,000</u>	<u>50,000</u>
Net nonoperating revenues (expenses)	<u>(20,151,927)</u>	<u>(1,020,000)</u>
Change in net position	<u>(21,285,823)</u>	<u>(2,568,390)</u>
Net position, beginning of year	<u>46,571,744</u>	<u>49,140,135</u>
Net position, end of year	<u><u>\$ 25,285,921</u></u>	<u><u>\$ 46,571,745</u></u>

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

EDEN TOWNSHIP HEALTHCARE DISTRICT
Statements of Cash Flows
For the Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Cash receipts from customers	\$ 5,619,681	\$ 5,261,134
Payments to suppliers of goods and services	(1,849,062)	(2,258,350)
Payments to employees for services	(354,734)	(354,758)
Grant payments	(208,330)	(109,319)
Tax payments	(394,663)	(397,616)
Net cash provided by operating activities	2,812,892	2,141,091
Cash flows from capital and related financing activities		
Payment of loan and line of credit principal	-	(1,300,237)
Settlement payable	(1,967,335)	-
Interest paid	(1,376,807)	(1,347,566)
Purchase of capital assets	(324,351)	(814,512)
Net cash used in capital and related financing activities	(3,668,493)	(3,462,315)
Cash flows from investing activities		
Investment income received	290,866	274,159
Distribution received from San Leandro Surgery Center	112,000	50,000
Income received from sale of San Leandro Surgery Center Partnership interest	901,500	-
Purchase of investments	(10,776,855)	(10,021,207)
Proceeds from sale of investments	10,397,648	9,301,553
Payments received on Webster Orthopedics note receivable	-	1,305,884
Change from restricted cash	6,632	17,085
Net cash provided by investing activities	931,791	927,474
Net increase (decrease) in cash and cash equivalents	76,190	(393,750)
Cash and cash equivalents, beginning of year	281,187	674,937
Cash and cash equivalents, end of year	\$ 357,377	\$ 281,187
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (1,133,896)	\$ (1,548,390)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	3,788,074	3,894,976
Amortization	188,794	178,171
Change in assets and liabilities		
Accounts receivable - tenants	3,939	47,521
Receivable - other	(5,531)	2,178
Prepaid expenses	(10,275)	(3,469)
Other assets	(84,628)	(78,232)
Accounts payable and accrued liabilities	85,047	(496,162)
Security deposits payable	3,745	42,848
Unearned rent	(37,377)	24,150
Grants payable	15,000	77,500
Net cash provided by operating activities	\$ 2,812,892	\$ 2,141,091
<u>Supplemental disclosure of non-cash investing capital or financing activities</u>		
Change in fair value investments	\$ (153,348)	\$ (46,150)

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

EDEN TOWNSHIP HEALTHCARE DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

1. Organization

Eden Township Healthcare District (the "District"), formerly Eden Township Hospital District, a political subdivision of the State of California, was organized under 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 the District'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. This arrangement was terminated six months after construction began on the replacement hospital for Eden Medical Center, which was July 2009; six months later, in January 2010, the District Board members resigned from the Eden Medical Center Board per the terms in the 2008 Amended Lease and Agreement between Sutter Health and the District.

In 2006, the District formed Dublin Gateway, LLC, a California limited liability company and Dublin Gateway, Inc., a California corporation, the manager of Dublin Gateway, LLC. Dublin Gateway, Inc. was dissolved during the fiscal year 2012.

In May 2007, the District, in partnership with Dublin Gateway, LLC, acquired Triad Dublin Gateway, LP, (TDG LP) 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 included within the District. Dublin Gateway, LP was dissolved during fiscal year 2014.

The District owns three medical office properties; DGMC, San Leandro Medical Arts Building and a newly constructed building on Lake Chabot Road in Castro Valley, California. The three properties are managed by professional commercial property managers.

In March 2008, the District executed an amended and restated lease and hospital operations agreement with EMC. EMC had two corporate members: the District and Sutter Health. Under the terms of the amended agreement, EMC had 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 its intent to exercise the purchase option in July 2009 for a purchase price determined to be zero under the terms of the agreement. The District filed a lawsuit opposing the purchase in which the trial court ruled in favor of Sutter Health in 2009. On April 11, 2012, the District was notified that its appeal filed with the California Supreme Court was denied. Consequently, the District wrote off the assets and associated goodwill of SLH in April 2012 after approval by the Board of Directors. See Footnote 12.

EDEN TOWNSHIP HEALTHCARE DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

1. Organization (continued)

In 1984, the District established Eden Hospital Health Services Corporation ("EHHSC"). EHHSC is a separate nonprofit corporation that is not included in the financial statements of the District as it does not meet the criteria in Governmental Accounting Standards Board ("GASB") Statement No. 14, *"The Reporting Entity,"* for inclusion as a component unit of the District as the District's only right with respect to EHHSC is to dissolve it. EHHSC owns and operates a retirement and skilled nursing facility. In 2010 the bylaws of EHHSC were amended to rename EHHSC "Baywood Court" after the only remaining operational entity.

2. Summary of Significant Accounting Policies

Basis of accounting

The District's financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). The financial statement presentation, required by GASB Statements No. 34, 37 and 38 provides a full accrual basis, comprehensive, entity-wide perspective of the District's assets, results of operations and cash flows. The District follows the "business-type activities" reporting requirements of GASB Statement No. 34.

Effective July 1, 2012, the District adopted GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which brings the top category of authoritative governmental accounting and financial reporting literature together into a single publication. This GASB pronouncement did not have a significant impact on the District's June 30, 2014 financial statements

Cash and cash 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, 2015 and 2014 includes investments in fixed income securities which are stated at fair value of \$3,324,003 and \$3,329,067, respectively, as well as cash and cash equivalents of \$5,549 and \$7,117, respectively.

EDEN TOWNSHIP HEALTHCARE DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

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 statement of revenues, expenses and changes in net assets.

Capital assets, net

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 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. Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered, the District, using its best estimates and projections, reviews for impairment the carrying value of long-lived identifiable assets to be held and used in the future. Any impairment losses identified are recognized when determined. Recoverability of assets is measured by comparison of the carrying amount of the asset to the net undiscounted future cash flows expected to be generated from the asset. If the future undiscounted cash flows are not sufficient to recover the carrying value of the assets, the assets carrying value is adjusted to fair value.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported results of operations for the reporting periods. Actual results could differ from those estimates.

EDEN TOWNSHIP HEALTHCARE DISTRICT

Notes to Financial Statements

June 30, 2015 and 2014

3. Cash and Investments - 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, 2015 and 2014, the District had cash and equivalents on deposit at banks of \$2,495,190 and \$367,181, respectively, that were covered by depository insurance or collateralized by the pledging financial institution.

At June 30, 2015 and 2014, the balances on deposit at financial institutions in excess of federal depository insurance limits \$250,000 totaled \$2,755,928 and \$1,000,813, respectively and were held in uncollateralized accounts.

4. Investments

At June 30, 2015 and 2014, investments consisted of the following at fair value, including \$3,329,552 and \$3,336,184 respectively, that are classified as restricted cash and investments as required by the District's debtor:

	<u>2015</u>	<u>2014</u>
US Treasury notes	\$ 3,888,017	\$ 3,584,403
US government agency securities	1,578,009	2,077,304
Corporate bonds	4,446,522	3,789,677
Fixed income	<u>1,012,681</u>	<u>1,004,240</u>
Total investments	<u>\$10,925,229</u>	<u>\$10,455,624</u>

EDEN TOWNSHIP HEALTHCARE DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

4. 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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
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

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.

At June 30, 2015 and 2014, scheduled maturities of fixed income securities consisted of the following:

	<u>2015</u>	<u>2014</u>
Maturing in		
Less than 1 year	\$ 4,566,678	\$ 2,004,509
1 year to 5 year	5,891,990	8,040,929
5 years to 10 years	-	410,186
Over 10 years	<u>466,561</u>	<u>-</u>
Total	<u>\$10,925,229</u>	<u>\$10,455,624</u>

EDEN TOWNSHIP HEALTHCARE DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

4. 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 did not hold any investments at June 30, 2015 and 2014 that had ratings of less than A by national rating agencies. 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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
AAA	\$ 4,129,275	\$ 3,839,921
AA1-AA3	4,037,823	3,379,914
A1 -A3	1,745,450	2,231,548
Unrated	<u>1,012,681</u>	<u>1,004,241</u>
Total	<u>\$10,925,229</u>	<u>\$10,455,624</u>

Concentration of credit risk

The District diversifies its portfolio as required by the California Government Code. At June 30, 2015 and 2014, more than 5 percent of the District's investments are invested in the following.

	<u>2015</u>	<u>2014</u>
Federal National Mortgage Association Bonds	4.4%	8.9%
Federal Home Loan Banks Bonds	10%	8.2%

EDEN TOWNSHIP HEALTHCARE DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

5. Capital Assets

Changes in capital assets consist of the following for the year ended June 30, 2015:

	Balance <u>July 1, 2014</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	Balance <u>June 30, 2015</u>
Capital assets not being depreciated					
Land	\$13,005,082	\$ -	\$ -	\$ (-)	\$13,005,082
Construction in progress	<u>90,107</u>	<u>135,068</u>	<u>(87,551)</u>	<u>(2,556)</u>	<u>135,068</u>
Total capital lease assets not being depreciated	<u>13,095,189</u>	<u>135,068</u>	<u>(87,551)</u>	<u>(2,557)</u>	<u>13,140,149</u>
Capital assets being depreciated					
Land improvements	24,105		-	(-)	24,105
Building	75,979,874	-	(-)	(549,339)	75,430,535
Building improvements	3,936,339	58,708	80,039	(14,684)	4,060,402
Tenant improvements	6,247,844	130,576	7,512	(80,176)	6,305,756
Equipment	<u>58,037</u>	<u>-</u>	<u>-</u>	<u>(30,048)</u>	<u>27,989</u>
Total capital assets being depreciated	86,246,199	189,284	87,551	(674,247)	85,848,787
Less: Accumulated depreciation	<u>(21,749,590)</u>	<u>(3,788,074)</u>	<u>-</u>	<u>674,247</u>	<u>(24,863,417)</u>
Total capital assets being depreciated, net	<u>64,496,609</u>	<u>(3,598,790)</u>	<u>87,550</u>	<u>-</u>	<u>60,985,369</u>
Total capital assets, net	<u>\$77,591,798</u>	<u>\$ (3,463,722)</u>	<u>\$ -</u>	<u>\$ (2,556)</u>	<u>\$74,125,518</u>

Changes in capital assets consist of the following for the year ended June 30, 2014:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated					
Land	\$13,005,082	\$ -	\$ -	\$ (-)	\$13,005,082
Construction in progress	<u>23,309</u>	<u>107,838</u>	<u>(41,040)</u>	<u>-</u>	<u>90,107</u>
Total capital lease assets not being depreciated	<u>13,028,391</u>	<u>107,838</u>	<u>(41,040)</u>	<u>(-)</u>	<u>13,095,189</u>
Capital assets being depreciated					
Land improvements	16,000	8,105	-	(-)	24,105
Building	76,746,935	-	(767,061)	(-)	75,979,874
Building improvements	3,620,605	141,894	173,840	-	3,936,339
Tenant improvements	5,056,909	396,665	794,270	-	6,247,844
Equipment	<u>64,801</u>	<u>-</u>	<u>-</u>	<u>(6,764)</u>	<u>58,037</u>
Total capital assets being depreciated	85,505,250	546,664	201,049	(6,764)	86,246,199
Less: Accumulated depreciation	<u>(17,861,379)</u>	<u>(3,894,975)</u>	<u>-</u>	<u>6,764</u>	<u>(21,749,590)</u>
Total capital assets being depreciated, net	<u>67,643,871</u>	<u>(3,348,311)</u>	<u>201,049</u>	<u>-</u>	<u>64,496,609</u>
Total capital assets, net	<u>\$80,672,262</u>	<u>\$ (3,240,473)</u>	<u>\$160,009</u>	<u>\$ -</u>	<u>\$77,591,798</u>

EDEN TOWNSHIP HEALTHCARE DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

6. Note Receivable

On August 1, 2011 the District made a \$3,000,000 loan to St. Rose Hospital ("SRH") to be used for operations with an original maturity date of November 1, 2011. In December 2011, the District established a revised loan payment plan that called for the current principal balance of \$2,350,000 to be repaid by March 9, 2012. SRH repaid a total of \$1,200,000 under this repayment plan leaving a loan balance of \$1,150,000 as of June 30, 2012. On August 22, 2012 the District informed SRH in writing that principal and interest payments on the loan have been suspended for one year, and received acknowledgment from SRH on this new agreement. On August 1, 2013 SRH requested the note be forgiven by the District. The District has not made a decision on this request as of the date of the financials statements are available to be issued. The District and St. Rose Hospital have been in discussions about ways that this debt could be discharged. The District may accept care to residents as a form of payment of this obligation.

The loan is secured by SRH personal property, accounts receivable and all right and intangibles relating to the present or future development, use, sale operation or occupancy of the capital project. The interest rate was lowered to 3.25% effective December 2011 from the default interest rate of 8.25% as stated in the loan agreement.

7. Goodwill

Goodwill relates to the District's purchase of San Leandro Hospital (SLH) in July 2004. As a result of the purchase of SLH by Sutter Health, the majority of the goodwill associated with the original acquisition of SLH was written off as of June 30, 2012. In April 2015 the District sold its partnership interest in the San Leandro SurgiCenter. As a result of the sale the remaining goodwill associated with the SurgiCenter was written off as of June 30, 2015. The remaining goodwill is attributable to the District's interest in the San Leandro Medical Arts Building. 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.

	<u>2015</u>	<u>2014</u>
Goodwill	\$211,604	\$781,411
Less accumulated amortization	<u>(116,383)</u>	<u>(390,706)</u>
Goodwill, net	<u>\$ 95,221</u>	<u>\$390,705</u>

Amortization expense related to goodwill was \$31,948 for the year ended June 30, 2015 and \$39,070 for the year ended June 30, 2014.

EDEN TOWNSHIP HEALTHCARE DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

8. Loan Payable

At June 30, 2012 and 2011, the District's long-term liabilities consisted of a variable rate note and a line of credit secured on the Dublin Gateway Medical Center and guaranteed by the District. The note with US Bank was originally 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 for interest reserve.

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 the first loan modification. The terms of the note were modified on May 25, 2010 causing the remaining balance of \$5,797,602 available as holdback reserves to be cancelled which reduced the maximum amount available under the loan to \$48,202,397. 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 and the maturity date was extended to 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 outstanding on the line of credit is secured by the San Leandro Medical Arts Building and \$3,300,000 of marketable securities. The maturity date of the line of credit is October 1, 2012. The variable interest rates on the note and the line of credit were 3.24% and 3.00%, respectively, as of June 30, 2012.

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 which may be reduced by amounts incurred for tenant improvements. At June 30, 2012, the balance of cash and investments required to be maintained by the bank as collateral is \$4,602,867.

A fourth modification was executed on March 14, 2012. The District is required at all times to maintain unencumbered liquid assets of at least \$15,000,000.

A fifth modification was executed on September 28, 2012. The modification was to extend the maturity date of the note and line of credit from October 1, 2012 to February 1, 2013.

EDEN TOWNSHIP HEALTHCARE DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

8. Loan Payable (continued)

A sixth modification was executed on January 31, 2013. The note's total commitment was reduced to \$35,214,969 and the District made a principal payment of \$5,000,000. The maturity date of the note was extended to February 1, 2016 and the District was no longer required to pay US Bank 50% of all excess cash flow for the prior month's financial results of the Dublin Gateway operations. The required unencumbered liquid assets were also reduced from \$15,000,000 to \$8,000,000. With regards to the line of credit an additional advance of \$2,000,000 was added to the outstanding principal balance of \$7,702,398. The new principal balance is \$9,702,397 and allocated amongst the San Leandro Medical Arts Building (\$2,806,000), the Eden Medical Building (\$3,570,000), and marketable securities (\$3,326,397). The net principal reduction by the District in this transaction is \$3,000,000, paid in cash. The maturity date of the line of credit is February 1, 2016, concurrent with the note mentioned above. The variable interest rates on the note and the line of credit were 2.93% (LIBOR plus 2.75 points) and 2.94% (LIBOR plus 2.75 points), respectively as of June 30, 2015.

Changes in the District's long-term liabilities for the fiscal year ended June 30, 2015:

	<u>July 1, 2014</u>	<u>Additions</u>	<u>Paydowns</u>	<u>June 30, 2015</u>	Amounts Due Within <u>One Year</u>
Bank loan	<u>\$44,917,367</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$44,917,367</u>	<u>\$44,917,367</u>

Changes in the District's long-term liabilities for the fiscal year ended June 30, 2014:

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Paydowns</u>	<u>June 30, 2014</u>	Amounts Due Within <u>One Year</u>
Bank loan	<u>\$44,917,367</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$44,917,367</u>	<u>\$ -</u>

Scheduled net debt service payments including interest:

	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2016	\$799,199	\$46,884,702	\$47,683,901
2017	34,428	1,967,335	2,001,763
2018	29,510	1,967,335	1,996,845
2019	24,592	1,967,335	1,991,927
2020	19,673	1,967,335	1,987,008
Thereafter	<u>29,510</u>	<u>5,902,005</u>	<u>5,931,515</u>
	<u>\$936,912</u>	<u>\$60,656,047</u>	<u>\$61,592,595</u>

Scheduled net debt service payments include the damages awarded to Sutter. Future interest payments are based upon the current year treasury note rate.

EDEN TOWNSHIP HEALTHCARE DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

9. Net Position

The financial statements utilize a net position presentation. Net position is 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 position. 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 Position - This component of net position 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, 2015 and 2014, the District had \$3,330,302 and \$3,336,934 in restricted net position, respectively. The restriction is related to required collateral to be held for the District's loan payable.

Unrestricted Net Position - This category represents net position of the District not restricted for any project or purpose. Portions of unrestricted net position 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 - Future Rental Income

The future minimum rental income from operating leases as of June 30, 2015 is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Eden Medical Building</u>	<u>San Leandro Medical Arts</u>	<u>Dublin Gateway</u>	<u>Total</u>
2016	\$ 345,140	\$ 729,852	\$ 3,673,164	\$ 4,748,156
2017	359,113	690,681	2,084,183	3,133,977
2018	322,505	578,736	1,325,422	2,226,663
2019	276,653	368,113	1,122,797	1,767,563
2020	268,226	310,032	1,055,900	1,634,158
Thereafter	<u>428,869</u>	<u>873,774</u>	<u>5,021,822</u>	<u>6,324,465</u>
Total minimum lease rentals	<u>\$2,000,506</u>	<u>\$3,551,188</u>	<u>\$14,283,288</u>	<u>\$19,834,982</u>

EDEN TOWNSHIP HEALTHCARE DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

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 \$13,407 and \$13,938 for the years ended June 30, 2015 and 2014, respectively.

12. Commitments

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 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 was decided in favor of Sutter Health in December of 2011. An appeal for review was filed with the California Supreme Court in February 2012. The California Supreme Court refused to entertain an appeal on April 11, 2012. Therefore, the value of San Leandro Hospital and the related goodwill were written off in April 2012.

The District transferred title to San Leandro Hospital to Sutter Health on September 28, 2012. The continued arbitration from 2009, for damages was settled with an award to Sutter Health of \$17,179,860 on June 11, 2013. The method and means of payment of the award, and timeframe for the same, had not been determined and remained subject to court determination or agreement with Sutter Health.

EDEN TOWNSHIP HEALTHCARE DISTRICT
Notes to Financial Statements
June 30, 2015 and 2014

12. Commitments (continued)

Litigation (continued)

The District and Sutter were discussing a possible settlement which would involve the sale of some assets to Sutter Health and a modification of the total damages, costs and interest that Sutter Health has claimed. These discussions ended in a stalemate in May 2015 and the District filed a hardship motion in court, arguing that the sale of assets to settle the damages claim in full would irreparably harm the District and its constituents of future earnings and appreciation of its assets and that it should have the full statutory time to make installment payments on the amount owed. The Court granted the District's motion in its entirety, including a reduction in the interest rate to the interest on a one-year Treasury Bill. On August 19, 2015 Sutter Health filed a notice of intent to appeal this ruling. The District owes Sutter Health \$19,673,353 on the damages claim, court costs, fees and pre-judgement interest. This is the amount to be paid to Sutter Health along with annual interest payments based on the 1-Year Treasury Bill interest on January 1 of each year. The first installment, due on June 30, 2015, was one-tenth of the amount owed, \$1,967,335 plus interest for the period from January 8, 2014 to December 31, 2014, with the interest on a 1-Year Treasury Bill as of January 1, 2015. This payment was made on June 30, 2015. The remaining balance due on this obligation as of June 30, 2015 is \$17,706,018.

13. Subsequent Events

The District has evaluated subsequent events through November 2, 2015, the date the financial statements were available to be issued. No other subsequent events have occurred that would have a material impact on the presentation of the District's financial statements.

SUPPLEMENTAL INFORMATION

EDEN TOWNSHIP HEALTHCARE DISTRICT
Combining Statement of Net Position
June 30, 2015
(With Comparative Totals as of June 30, 2014)

	<u>District Office</u>	<u>Dublin Gateway LP</u>	<u>San Leandro Medical Arts Building</u>	<u>Eden Medical Building</u>	<u>Eden Township Healthcare District Total</u>	<u>2014</u>
Assets						
Current assets:						
Cash and equivalents	\$ 21,853	\$ 122,582	\$ 159,609	\$ 53,333	\$ 357,377	\$ 281,187
Restricted cash and investments	3,329,552	-	-	-	3,329,552	3,336,184
Receivable - other	31,458	-	-	-	31,458	25,927
Accounts receivable - tenants	-	19,539	3,743	25,867	49,150	53,089
Interest receivable	145,921	-	-	-	145,921	134,079
Prepaid expense	15,804	31,675	6,550	1,871	55,899	45,624
Total current assets	<u>3,544,588</u>	<u>173,796</u>	<u>169,902</u>	<u>81,071</u>	<u>3,969,357</u>	<u>3,876,091</u>
Other assets:						
Investments	8,574,375	-	-	-	8,574,375	8,354,761
Deposit	-	-	750	-	750	750
Goodwill, net	95,221	-	-	-	95,221	390,704
Notes Receivable	1,150,000	-	-	-	1,150,000	1,150,000
Other	-	563,302	-	59,381	622,683	694,901
Total other assets	<u>9,819,596</u>	<u>563,302</u>	<u>750</u>	<u>59,381</u>	<u>10,443,029</u>	<u>10,591,116</u>
Capital assets:						
Nondepreciable	-	11,000,000	57,402	2,082,748	13,140,150	13,095,189
Depreciable	12,128	51,834,168	2,182,080	6,956,994	60,985,369	64,496,609
Total capital assets, net	<u>12,128</u>	<u>62,834,168</u>	<u>2,239,481</u>	<u>9,039,742</u>	<u>74,125,520</u>	<u>77,591,798</u>
Total assets	<u>\$ 13,376,312</u>	<u>\$63,571,266</u>	<u>\$ 2,410,134</u>	<u>\$ 9,180,194</u>	<u>\$ 88,537,906</u>	<u>\$ 92,059,005</u>
Liabilities and net position						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 85,796	\$ 14,975	\$ 38,398	\$ 82,612	\$ 221,781	\$ 145,535
Taxes payable	-	-	-	-	-	-
Interest payable	-	86,101	-	8,800	94,901	93,808
Security deposits held	-	132,890	6,656	33,961	173,507	169,762
Unearned rent	-	2,664	43,247	-	45,911	83,288
Grants payable	92,500	-	-	-	92,500	77,500
Settlement payable	1,967,335	-	-	-	1,967,335	-
Loan payable	3,326,397	35,214,970	2,806,000	3,570,000	44,917,367	-
Total current liabilities	<u>5,472,028</u>	<u>35,451,600</u>	<u>2,894,302</u>	<u>3,695,373</u>	<u>47,513,302</u>	<u>569,893</u>
Settlement payable	15,738,683	-	-	-	15,738,683	44,917,367
Total non-current liabilities	<u>15,738,683</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,738,683</u>	<u>44,917,367</u>
Total liabilities	<u>21,210,711</u>	<u>35,451,600</u>	<u>2,894,302</u>	<u>3,695,373</u>	<u>63,251,985</u>	<u>45,487,259</u>
Net position						
Invested in capital assets, net of related debt	(21,020,287)	27,619,197	(566,519)	5,469,742	11,502,133	32,674,431
Restricted	3,329,552	-	750	-	3,330,302	3,336,934
Unrestricted	9,856,335	500,470	81,601	15,079	10,453,485	10,560,380
Total net position	<u>(7,834,399)</u>	<u>28,119,667</u>	<u>(484,167)</u>	<u>5,484,821</u>	<u>25,285,921</u>	<u>46,571,745</u>
Total liabilities and net position	<u>\$ 13,376,312</u>	<u>\$63,571,266</u>	<u>\$ 2,410,134</u>	<u>\$ 9,180,194</u>	<u>\$ 88,537,906</u>	<u>\$ 92,059,005</u>

EDEN TOWNSHIP HEALTHCARE DISTRICT
Combining Statement of Revenues, Expenses and Changes of Net Position
For the Year Ended June 30, 2015
(With Comparative Totals as of June 30, 2014)

	District Office	Dublin Gateway LP	San Leandro Medical Arts Building	Eden Medical Building	Eden Township Healthcare District Total	2014
Operating revenues						
Rental income	\$ -	\$ 3,556,493	\$ 813,979	\$ 337,391	\$ 4,707,863	\$ 4,305,697
Tenant Reimbursements	-	854,383	-	92,657	947,041	838,740
Total operating revenues	-	4,410,876	813,979	430,048	5,654,904	5,144,437
Operating expenses						
Salaries and benefits	341,238	-	-	-	341,238	364,595
Purchased services	563,374	3,179	-	2,652	569,205	403,067
Rental property operating and maintenance	-	630,512	461,895	191,090	1,283,497	1,267,583
Taxes	-	394,663	-	-	394,663	397,616
Grants to service providers and community	223,330	-	-	-	223,330	186,819
Amortization	31,948	144,341	-	12,505	188,794	178,171
Depreciation	5,597	2,918,526	319,763	544,187	3,788,073	3,894,976
Total operating expenses	1,165,487	4,091,221	781,658	750,434	6,788,800	6,692,827
Operating loss	(1,165,487)	319,655	32,321	(320,386)	(1,133,896)	(1,548,390)
Nonoperating revenues (expenses):						
Interest income	300,934	251	-	1,524	302,709	322,311
Interest expense	(147,324)	(1,041,023)	(83,289)	(106,265)	(1,377,901)	(1,346,161)
Change in fair value of investments	(153,346)	-	-	-	(153,346)	(46,150)
Settlement Loss	(19,673,353)	-	-	-	(19,673,353)	-
Gain from sale of partnership interest, net	637,964	-	-	-	637,964	-
Other gain/(loss)	112,000	-	-	-	112,000	50,000
Net nonoperating revenues (expenses)	(18,923,125)	(1,040,774)	(83,289)	(104,741)	(20,151,927)	(1,020,000)
Net gain/(loss) before transfers	(20,088,612)	(721,119)	(50,967)	(425,127)	(21,285,823)	(2,568,390)
Transfer	2,006,804	(2,006,804)	-	-	-	-
Transfer	220,399	-	-	(220,399)	-	-
Transfer	-	(83,191)	83,191	-	-	-
Transfer	-	(106,140)	-	106,140	-	-
Transfer	-	-	-	-	-	-
Transfer	83,568	-	(83,568)	-	-	-
Change in net position	(17,777,841)	(2,917,254)	(51,344)	(539,386)	(21,285,823)	(2,568,390)
Net position, beginning of year	9,943,442	31,036,918	(432,823)	6,024,207	46,571,744	49,140,135
Net position, end of year	\$ (7,834,399)	\$ 28,119,667	\$ (484,167)	\$ 5,484,821	\$ 25,285,921	\$ 46,571,745