Eden Township Healthcare District

dba Eden Health District

Consolidated Financial Statements

June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Eden Township Healthcare District
dba Eden Health District
Castro Valley, California

We have audited the accompanying consolidated financial statements of Eden Township Healthcare District dba Eden Health District (a California nonprofit corporation) (the "District"), which comprise the consolidated statements of net position as of June 30, 2016 and 2015, and the related consolidated statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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 (the "U.S."); 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 U.S. 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 net position of Eden Township Healthcare District dba Eden Health District as of June 30, 2016 and 2015, and the changes in their net position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the U.S.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 10 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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 consolidated financial statements as a whole. The information on pages 33 - 34 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the U.S. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Armanino LLP

Armanino[LLP]
San Ramon, California

December 12, 2016

Eden Township Healthcare District
dba Eden Health District
Management's Discussion and Analysis (Unaudited)
June 30, 2016 and 2015

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, 2016 and 2015.

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,		
	2016	2015	2014
ASSETS:			
Current assets	$ 949,319	$ 3,969,358	$ 3,876,091
Investments	9,671,404	8,574,375	8,354,761
Other non-current assets	1,096,284	1,868,655	2,236,354
Capital assets	42,955,008	74,125,518	77,591,798
Total assets	$ 54,672,015	$ 88,537,906	$ 92,059,004

Eden Township Healthcare District
dba Eden Health District
Management's Discussion and Analysis (Unaudited)
June 30, 2016 and 2015

	As of June 30,		
	2016	2015	2014
LIABILITIES AND NET POSITION:			
Current liabilities			
Loan payable	$ 11,719,779	$ 44,917,367	$ -
Settlement payable	1,967,335	1,967,335	-
Other current liabilities	764,848	628,600	569,893
Total current liabilities	14,451,962	47,513,302	569,893
Non-current liabilities			
Loan payable	-	-	44,917,367
Settlement payable	13,771,348	15,738,683	-
Total non-current liabilities	13,771,348	15,738,683	44,917,367
Total liabilities	28,223,310	63,251,985	45,487,260
NET POSITION	26,448,705	25,285,921	46,571,744
Total liabilities and net position	$ 54,672,015	$ 88,537,906	$ 92,059,004

Net position at June 30, 2016, increased to $26,448,705 from $25,285,921 in 2015. Capital assets decreased by $31,170,510 primarily due to the sale of one of the buildings at Dublin Gateway Center along with the current year depreciation expense of $3,237,500. The building at 4050 Dublin Boulevard had been leased by Palo Alto Medical Foundation (PAMF) who is an affiliate of Sutter Health. Per PAMF's lease agreement, the lessee had the right to purchase the building 90 days preceding the 9th anniversary date of PAMF's lease. PAMF exercised their right to purchase the building on September 10, 2015 and the building was sold on March 2, 2016 for $33,510,941. At the time of the sale the net book value of the building and its improvements were $28,684,343 which was removed in March upon recording the sales transaction.

These decreases were offset with $705,069 of new investments in tenant, building, and land improvements. Of these investments, tenant improvements were $260,016 for the Eden Medical Building (EMB) and $221,950 for the San Leandro Medical Arts Building (SLMAB). Building improvements were $120,229 for the Eden Medical Building (EMB), $55,184 for the San Leandro Medical Arts Building (SLMAB), and $19,662 for Dublin Gateway Center. Dublin Gateway Center also invested $28,028 in land improvements.

Construction in progress increased $46,264. Of this increase, $111,895 was tenant improvements at SLMAB and $61,645 were building improvements at Dublin Gateway Center. These increases were offset with capitalized building improvements of $15,174 and tenant improvements of $37,904 at SLMAB as well as $73,990 of tenant improvements for EMB.

Current assets decreased by $3,020,039. Of this decrease $3,329,552 was a reduction in restricted funds. The requirement to hold restricted funds associated with the Dublin building loan was removed by the lender as a result of paying down the loan's principal balance with the proceeds received from the sale of 4050 Dublin Boulevard. In addition, interest receivable decreased by $105,645. The decrease was primarily attributable to the forgiveness of accrued interest income associated with the St. Rose Hospital loan. The forgiveness was in the form of a grant, in the amount of $143,356. These decreases were offset with an increase in cash of $313,258, receivables of $76,715 and prepaid expense of $25,185. Investments increased $1,097,029 due to a surplus of operating funds.

Other current assets decreased $772,371. The decrease was primarily due to the reduction in notes receivable from St. Rose Hospital by $1,150,000. At its June meeting, the Board of Directors voted, unanimously, to provide a grant to St. Rose Hospital in the form of loan forgiveness plus accrued interest. The funds were to be used to offset the costs of serving under insured and uninsured patients from the Eden Health District. Goodwill also decreased $10,580 in FY16. These decreases were offset with an increase in prepaid loan fees and lease commissions of $388,209 at Dublin Gateway.

Current liabilities decreased by $33,061,340. This was mainly due to a decrease in the Dublin loan payable balance of $33,197,588. When the building at Dublin Gateway Center was sold, the net proceeds of $33,197,588 were used to pay down the principal balance of the outstanding loan as required in the loan covenants. As a result of a lower loan balance, interest payable also decreased by $63,583. These decreases were offset with an increase in accounts payable and accrued liabilities of $147,932, grants payable of $29,500 and unearned rent of $22,399. Accounts payable increased due to the accrual of lease commissions for Dublin Gateway Center. Non-current liabilities decreased 1,967,335. The decrease is due to the second payment of 10 installments made to Sutter Health per the damages awarded settlement.

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Management's Discussion and Analysis (Unaudited)
June 30, 2016 and 2015

	2016	2015	2014
OPERATING RESULTS			
Operating revenues			
Rental income	$ 4,142,867	$ 4,707,863	$ 4,305,697
Tenant reimbursements	962,724	947,041	838,740
Total operating revenues	5,105,591	5,654,904	5,144,437
Operating expenses			
Salaries and benefits	358,606	341,238	364,595
Consulting/Community education	108,945	106,686	68,585
Audit fees	30,626	30,016	25,650
Public relations	23,725	11,756	15,340
Legal fees	119,446	298,311	221,243
Insurance	75,016	74,373	77,904
Other purchased services	116,603	112,015	103,442
Rental property operating and maintenance	1,485,449	1,219,544	1,158,485
Taxes	332,095	394,663	397,618
Grants to service providers and community	1,728,722	223,330	186,819
Amortization	175,809	188,794	178,171
Depreciation	3,237,500	3,788,074	3,894,976
Total operating expenses	7,792,542	6,788,800	6,692,828
Operating profit/(loss)	(2,686,951)	(1,133,896)	(1,548,391)
Net nonoperating revenues (expenses)	3,849,735	(20,151,927)	(1,020,000)
Change in net position	1,162,784	(21,285,823)	(2,568,391)
Net position, beginning of year	25,285,921	46,571,744	49,140,135
Net position, end of year	$ 26,448,705	$ 25,285,921	$ 46,571,744

For the year ending June 30, 2016, the District's operating loss was $2,686,951 compared to an operating loss of $1,133,896 for the year ending June 30, 2015. Revenues decreased to $5,105,591 compared to the prior year's revenue of $5,654,904. Of this decrease Dublin Gateway Center's revenue's decreased $614,996. Of this amount, $679,406 is due to lost revenue as a result of the sale of 4050 Dublin Boulevard in March. The decrease is offset with annual rental increases from existing tenants of $51,531 and an increase of $12,878 for tenant reimbursements. Eden Medical Building's revenue increased $11,625 and was due to annual rental increases from existing tenants. San Leandro Medical Arts Building revenue increased $54,058 and was due to a combination of annual rental increases along with the addition of new tenants.

For the year ending June 30, 2016, operating expenses increased by $1,003,742 to $7,792,542 from the prior year expenses of $6,788,800. Grant awards increased by $1,505,392 in FY16. Of this increase $1,293,356 was a grant to St. Rose in the form of loan forgiveness, including accrued interest. At its June meeting, the Board of Directors voted, unanimously, to provide the grant to St. Rose Hospital and the funds were to be used to offset the costs of serving under insured and uninsured patients from the Eden Healthcare District. In November 2015, the District entered into a partnership with Davis Street Health Center, a Federally Qualified Health Center, operated by Davis Street Family Resource Center, to provide services to the community. The partnership is a five year commitment of $250,000 per year. In FY16 the District provided $166,664 to Davis Street. In addition, community grants increased $45,369.

Rental property operating and maintenance increased $265,897. Of this increase $173,796 is from the Dublin Gateway Center. In March 2016 the last remaining space at 4000 Dublin Boulevard (22,800 sq. ft. on the 2nd floor) was leased. As a result of the building being fully leased, there was an increase in building maintenance personnel expense by $27,683. In addition an onsite building manager and part time assistant was hired and management fees increased $35,382 accordingly. Tenant reimbursable expense also increased $28,488.

Dublin Gateway Center also had an increase in electrical repairs of $36,302. The majority of the expense was attributable to installing LED lights throughout the building. Fire life & safety had an increase of $15,971 which was primarily due to security system repairs and the installation of new security cameras. Elevator repairs were also higher by $11,182, landscape expense was higher by $10,440 and general repairs were higher by $10,875.

San Leandro Medical Arts Building (SLMAB) had an increase of $61,228 in expenses. Of the increase $30,879 was due to a change in the vendor who provided onsite repair & maintenance service and the new vendor had a higher hourly rate. Plumbing repairs were higher by $21,667 and was primarily due to an emergency repair of a water leak in the common area restrooms. Utilities increased by $19,128 as a result of increased tenant occupancy. LED lights were also installed in the building which contributed $15,956 to the increase. These increases were offset with a decrease of $26,612 in HVAC repairs. The Eden Medical Building (EMB) had an increase of $30,879 in expenses. The increase was primarily attributable to elevator repairs of $11,143, general repairs of $10,792 and an increase in garbage service and utilities by $4,155 and $2,953 respectfully. These increases were offset with lower depreciation and amortization expense of $563,559, lower legal fees of $178,865 and lower property taxes of $62,568. Legal fees were lower in FY16 as most of the expenses incurred in FY15 were related to the damages award settlement negotiations with Sutter. Depreciation and amortization expense was lower primarily due to the sale of the building at 4050 Dublin Boulevard. Property taxes were lower due to the buildings sale.

Net non-operating revenue was $3,849,734 compared to $20,151,927 of non-operating expense in FY15. Non-operating expense in FY15 was primarily due to the recognition of the damages awarded to Sutter in the amount of $19,673,353 which was offset with the gain on the sale of the San Leandro Surgery Center of $637,964 and the final partnership distribution of $112,000. The increase in FY16 was mainly due to the gain from the sale of Dublin's building 4050 in the amount of $4,740,414. The sales price of the building was $33,860,941 less a credit of $350,000 per the purchase sales agreement, less the net book value of the building and the related improvements of $28,684,343, and the fees associated with the sale of $86,184. The loss on the fair value of investments increased $114,231 and interest expense decreased $260,191. The decrease in interest expense was primarily due to the pay down of principal on the Dublin building loan. Interest income decreased $6,563.

	As of June 30,		
	2016	2015	2014
Net position			
Invested in capital assets, net of related debt	$ 15,496,546	$ 11,502,133	$ 32,674,431
Restricted	-	3,330,302	3,336,934
Unrestricted	10,952,159	10,453,486	10,560,380
Total net position	$ 26,448,705	$ 25,285,921	$ 46,571,745

At June 30, 2016, total net position increased by $1,162,785. Net investment in capital assets, net of related debt increased $3,994,413. The increase was due to a reduction in debt of $35,164,923 which was offset with a net reduction in fixed assets of $31,170,511. Of the reduction in debt, $33,197,588 was from paying down the Dublin Gateway Center's building loan and $1,967,335 was the 2nd installment payment for the Sutter damages award. Of the reduction in fixed assets, $28,684,343 was due to the write off of Dublin Gateway Center's building and related improvements located at 4050 Dublin Boulevard coupled with depreciation expense of $3,237,498 for the year. These reductions were offset with an increase in fixed asset investments for tenant and building improvements of $751,330.

The reduction of $3,329,552 in restricted assets was due to the restriction of collateral funds associated with the Dublin building loan being removed as a result of paying down of the Dublin building loan after it was sold. The funds were deposited into the investment account in March.

Unrestricted net assets increased by $497,924. This increase was due to an increase in assets of $634,173 which was offset with an increase in liabilities of $136,249. Of the increase in assets $1,410,287 was an increase in cash and investments and $413,394 was an increase in prepaid expense. Prepaid expenses increased primarily due to new lease commissions and refinanced loan fees which will be amortized over the life of the tenants lease and the term of the building loan. These increases were offset with a decrease in notes receivable of $1,150,000 due to the forgiveness of the loan to St. Rose in the form of a grant along with a decrease in other receivables of $28,928 and goodwill of $10,580.

CAPITAL ASSETS

The District's capital assets include land, construction in progress, land improvements, buildings, tenant improvements and equipment. At June 30, 2016 and 2015, the District's investment in capital assets totaled $42,955,008 and $74,125,520 respectively. During 2016, the District's reduction to depreciable capital assets was $42,039,146. The reduction was primarily due to the removal of Dublin Gateway Center's building located at 4050 Dublin Boulevard. The building was sold to Sutter Health in March 2016. The value of the building and the related improvements at the time of the sale was $42,663,063. Other reductions occurred from retiring fully depreciated tenant improvements of $44,257 and $36,894 of building improvements at SLMAB. These decreases were offset by increases to tenant improvements of $481,965, building improvements of $195,075 and land improvements of $28,028. Of the tenant improvements, $260,016 were for the EMB and $221,949 were for SLMAB. Of the building improvements, $120,229 was for the EMB, $55,184 was for the SLMAB and $19,662 was for the Dublin Gateway Center. The balance of construction in progress at June 30, 2016 was $181,333 which was an increase of $46,264 during the year.

DEBT ADMINISTRATION

At June 30, 2014 the District's outstanding balance for loans payable was $44,917,367 which was the same balance 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 Center 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. 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 was February 1, 2016. A seventh modification was executed on January 20, 2016. The maturity date of the note was extended to February 1, 2017 and the required unencumbered liquid assets were reduced from $8,000,000 to $6,000,000. The line of credit principal balance of $9,702,397 which was allocated amongst the San Leandro Medical Arts Building ($2,806,000), the Eden Medical Building ($3,570,000), and marketable securities ($3,326,397) was consolidated with the notes commitment of $35,214,969 to form a single indebtedness in the principal amount of $44,917,366. In March 2016 one of the buildings in the Dublin Gateway Center was sold and the proceeds of $33,197,588 were used to pay down the loan balance. The outstanding balance of loans payable was $11,719,779 as of June 30, 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, 2016 and 2015, respectively.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

On June 30, 2016, the District has three rental properties for which income and expenses are included in the fiscal year 2016-2017 budget. The San Leandro Medical Arts Building continues to be occupied by long-term tenants and a few newer tenants with about 10% vacancy. The building produces a profit and this is expected to increase as rents gradually increase. Capital investments continue to be made and rents are slowly recovering to market. The Eden Medical Building was first occupied in August 2012. On June 30, 2016 the occupancy was 65%. The Eden Medical Building has had positive cash flow from first occupancy. This building is producing increasing cash flow from some new space rental, although leasing of the remaining space is slow.

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 303, Castro Valley, CA 94546.

Eden Township Healthcare District
dba Eden Health District
Consolidated Statements of Net Position
June 30, 2016 and 2015

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	$ 670,635	$ 357,378
Restricted cash and investments	-	3,329,552
Receivable - other	19,738	31,458
Accounts receivable - tenants	137,586	49,150
Interest receivable	40,276	145,921
Prepaid expense	81,085	55,900
Total current assets	949,320	3,969,359
Other assets		
Investments	9,671,404	8,574,375
Deposit	750	750
Goodwill, net	84,641	95,221
Notes receivable	-	1,150,000
Prepaid leasing and loan costs	1,010,892	622,683
Total other assets	10,767,687	10,443,029
Capital assets		
Nondepreciable	13,186,415	13,140,149
Depreciable	29,768,593	60,985,369
Total capital assets	42,955,008	74,125,518
Total assets	$ 54,672,015	$ 88,537,906
LIABILITIES AND NET POSITION		
Current liabilities		
Accrued liabilities	$ 369,713	$ 221,781
Interest payable	31,318	94,901
Security deposits held	173,507	173,507
Unearned rent	68,310	45,911
Grants payable	122,000	92,500
Settlement payable	1,967,335	1,967,335
Loan payable	11,719,779	44,917,367
Total current liabilities	14,451,962	47,513,302
Settlement payable	13,771,348	15,738,683
Total liabilities	28,223,310	63,251,985
Net position		
Invested in capital assets, net of related debt	15,496,546	11,502,133
Restricted	-	3,330,302
Unrestricted	10,952,159	10,453,486
Total unrestricted net position	26,448,705	25,285,921
Total liabilities and net position	$ 54,672,015	$ 88,537,906

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

Eden Township Healthcare District
dba Eden Health District
Consolidated Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2016 and 2015

	2016	2015
Operating revenues		
Rental income	$ 4,142,867	$ 4,707,863
Tenant reimbursements	962,724	947,041
Total operating revenues	5,105,591	5,654,904
Operating expenses		
Salaries and benefits	358,606	341,238
Consulting/Community education	108,945	106,686
Audit fees	30,626	30,016
Public relations	23,725	11,756
Legal fees	119,446	298,311
Insurance	75,016	74,373
Other purchased services	116,603	112,015
Rental property operating and maintenance	1,485,449	1,219,544
Taxes	332,095	394,663
Grants to service providers and community	1,728,722	223,330
Amortization	175,809	188,794
Depreciation	3,237,500	3,788,074
Total operating expenses	7,792,542	6,788,800
Operating loss	(2,686,951)	(1,133,896)
Non-operating revenues (expenses)		
Interest income	266,146	302,709
Interest expense	(1,117,710)	(1,377,901)
Change in fair value of investments	(39,115)	(153,346)
Settlement loss	-	(19,673,353)
Gain on sale of Dublin Gateway Building	4,740,414	637,964
Other gain	-	112,000
Total non-operating revenues (expenses)	3,849,735	(20,151,927)
Increase (decrease) in net position	1,162,784	(21,285,823)
Net position, beginning of year	25,285,921	46,571,744
Net position, end of year	$ 26,448,705	$ 25,285,921

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

Eden Township Healthcare District
dba Eden Health District
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Cash receipts from customers	$ 5,051,274	$ 5,619,681
Payments to suppliers of goods and services	(2,397,316)	(1,849,062)
Payments to employees for services	(351,795)	(354,734)
Grant payments	(549,222)	(208,330)
Tax payments	(332,095)	(394,663)
Net cash provided by operating activities	1,420,846	2,812,892
Cash flows from investing activities		
Investment income received	371,791	290,866
Distribution received from San Leandro Surgery Center	-	112,000
Income received from sale of San Leandro Surgery Center Partnership Interest	-	901,500
Purchase of investments	(14,228,735)	(10,776,854)
Proceeds from sale of investments	13,092,591	10,397,648
Change in restricted cash	3,329,552	6,632
Net cash provided by investing activities	2,565,199	931,792
Cash flows from capital and related financing activities		
Payment of loan principal	(33,197,588)	-
Proceeds from sale of building	33,424,757	-
Settlement payment	(1,967,335)	(1,967,335)
Interest paid	(1,181,293)	(1,376,807)
Purchase of capital assets	(751,329)	(324,351)
Net cash used in financing activities	(3,672,788)	(3,668,493)
Net increase in cash and cash equivalents	313,257	76,191
Cash and cash equivalents, beginning of year	357,378	281,187
Cash and cash equivalents, end of year	$ 670,635	$ 357,378

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

Eden Township Healthcare District
dba Eden Health District
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	$ (2,686,951)	$ (1,133,896)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	3,237,500	3,788,074
Amortization	175,809	188,794
Loan forgiveness	1,150,000	-
Changes in operating assets and liabilities		
Accounts receivable - tenants	(88,436)	3,939
Receivable - other	11,720	(5,531)
Prepaid expenses	(25,185)	(10,275)
Prepaid leasing and loan costs	(564,018)	(84,628)
Accounts payable and accrued liabilities	158,509	85,047
Security deposits payable	-	3,745
Unearned rent	22,398	(37,377)
Grants payable	29,500	15,000
Net cash provided by operating activities	$ 1,420,846	$ 2,812,892

Supplemental schedule of noncash investing and financing activities

Change in fair value investments	$ (39,115)	$ (153,348)

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

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 Hospitals (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.

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.

On September 16, 2015, the District received approval by it's Board of Directors to have a "dba" name of Eden Health District, that would not change the existing statutory name of Eden Township Healthcare District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

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.

In June 2015, the GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments ("GASB No. 76"), which is effective for financial statements for periods beginning after June 15, 2015. The objective of GASB No. 76 is to identify, in the context of the current governmental financial reporting environment, the hierarch of generally accepted accounting principles ("GAAP"). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statements reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

The District reports information regarding its financial position and activities according to three classes of net position: 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

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. At June 30, 2016 and 2015, the District had $0 and $3,330,302 in restricted net assets, respectively. The restriction was related to required collateral to be held for the District loan payable.

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

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

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 investments

The restricted cash and investments consist of balances required to be held separately by the District's debtor. During the year-ending June 30, 2016, a significant portion of the District's debt was paid down. As a result the District's debtor lifted their requirement for restricted funds. The balance at June 30, 2016, was $0 and 2015 included investments in fixed income securities which are stated at fair value of $3,324,003 as well as cash and cash equivalents of $6,299.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

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.

Fair value measurements

In February 2015, the GASB issued Statement No. 72, Fair Value Measurement and Application ("GASB No. 72"), which is effective for financial statements for periods beginning after June 15, 2015. GASB No. 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The District reports the fair value of its investments in accordance with GASB 72. This standard requires an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques)· to determine fair value. In addition, the District reports certain investments using the net asset value per share as determined by investment managers under the so called "practical expedient". The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value measurement standards also require the District to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 reporting depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

- *Level 1* - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- *Level 2* - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Level 2 also includes practical expedient investments with notice periods for redemption of 90 days or less.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

- *Level 3* - Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. Level 3 also includes principal expedient investments with notice periods for redemption of more than 90 days.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in the District's financial statements.

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.

3. CASH AND INVESTMENTS - CUSTODIAL CREDIT RISK

Custodial credit risk for deposits is the risk that in the event of a bank failure, the '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, 2016 and 2015 , the District had cash and equivalents on deposit at banks of $2,332,005 and $2,495,190, respectively, that were covered by depository insurance or collateralized by the pledging financial institution.

At June 30, 2016 and 2015, the balances on deposit at financial institutions in excess of federal depository insurance limits of $250,000 totaled $2,407,120 and $2,755,928, respectively, and were held in uncollateralized accounts.

4. INVESTMENTS

At June 30, 2016 and 2015, investments consisted of the following at fair value, including $0 and $3,329,552, respectively, that are classified as restricted cash and investments as required by the District's debtor.

Investments consist of the following:

	2016	2015
US Treasury notes	$ 2,998,486	$ 3,888,017
US government agency securities	398,962	1,578,009
Corporate bonds	5,402,660	4,446,522
Fixed income	871,297	1,012,681
	$ 9,671,405	$ 10,925,229

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.

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 Deposit	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, 2016 and 2015, scheduled maturities of fixed income securities consist of the following:

	2016	2015
Maturing in		
Less than 1 year	$ 3,720,771	$ 4,566,678
1 year to 5 years	5,551,672	5,891,990
Over 10 years	398,962	466,561
	$ 9,671,405	$ 10,925,229

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 agency. The District did not hold any investments at June 30, 2016 and 2015, 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:

	2016	2015
AAA	$ 1,843,985	$ 4,129,275
AA1-AA3	6,272,754	4,037,823
A1-A3	1,554,667	1,745,450
Unrated	-	1,012,681
	$ 9,671,406	$ 10,925,229

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:

	2016	2015
Federal National Mortgage Association Bonds	0.0 %	4.4 %
Federal Home Loans Banks Bonds	3.7 %	10.0 %

5. FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
U.S. Treasury Notes	$ 2,998,486	$ -	$ -	$ 2,998,486
U.S. government agency securities	398,962	-	-	398,962
Corporate bonds	5,402,660	-	-	5,402,660
Fixed income	871,297	-	-	871,297
	$ 9,671,405	$ -	$ -	$ 9,671,405

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
U.S. Treasury Notes	$ 3,888,017	$ -	$ -	$ 3,888,017
U.S. government agency securities	1,578,009	-	-	1,578,009
Corporate bonds	4,446,521	-	-	4,446,521
Fixed income	1,012,681	-	-	1,012,681
	$10,925,228	$ -	$ -	$10,925,228

6. CAPITAL ASSETS

Changes in capital assets activity as of June 30, 2016, consisted of the following:

	Balance, June 30, 2015	Additions	Transfers	Disposals	Balance, June 30, 2016
Non-depreciable capital assets					
Land	$ 13,005,082	$ -	$ -	$ -	$ 13,005,082
Construction in progress	135,068	173,333	(127,068)	-	181,333
Total non-depreciable capital assets	13,140,150	173,333	(127,068)	-	13,186,415
Depreciable capital assets					
Land improvements	24,105	28,028	-	-	52,133
Buildings	75,430,535	-	-	(40,150,628)	35,279,907
Building improvements	4,060,402	179,901	15,173	(36,894)	4,218,582
Tenant improvements	6,305,754	370,074	111,895	(2,556,692)	4,231,031
Equipment	27,989	-	-	-	27,989
	85,848,785	578,003	127,068	(42,744,214)	43,809,642
Accumulated depreciation	(24,863,417)	(3,237,500)	-	14,059,868	(14,041,049)
Total depreciable capital assets	60,985,368	(2,659,497)	127,068	(28,684,346)	29,768,593
Total capital assets, net	$ 74,125,518	$ (2,486,164)	$ -	$(28,684,346)	$ 42,955,008

6. CAPITAL ASSETS (continued)

Changes in capital assets activity as of June 30, 2015, consisted of the following:

	Balance, June 30, 2014	Additions	Transfers	Disposals	Balance, June 30, 2015
Non-depreciable capital assets					
Land	$ 13,005,082	$ -	$ -	$ -	$ 13,005,082
Construction in progress	90,107	135,068	(87,551)	(2,556)	135,068
Total non-depreciable capital assets	13,095,189	135,068	(87,551)	(2,556)	13,140,150
Depreciable capital assets					
Land improvements	24,105	-	-	-	24,105
Buildings	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	7,510	(80,176)	6,305,754
Equipment	58,037	-	-	(30,048)	27,989
	86,246,199	189,284	87,549	(674,247)	85,848,785
Accumulated depreciation	(21,749,590)	(3,788,074)	-	674,247	(24,863,417)
Total depreciable capital assets	64,496,609	(3,598,790)	87,549	-	60,985,368
Total capital assets, net	$ 77,591,798	$ (3,463,722)	$ (2)	$ (2,556)	$ 74,125,518

7. 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.

In June 2016, the Board of Directors voted, unanimously, to provide a grant to St. Rose Hospital in the form of a loan forgiveness. The funds are to be used to offset the cost of serving under insured and uninsured patients who were treated at St. Rose Hospital. The total amount of the grant was $1,293,356 of which $1,150,000 was the remaining balance of the loan outstanding plus accrued interest of $143,356.

8. 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 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.

Goodwill consist of the following:

	2016	2015
Goodwill	$ 211,604	$ 211,604
Less accumulated amortization	(126,963)	(116,383)
	$ 84,641	$ 95,221

Amortization expense related to goodwill was $10,580 and $31,948 for the years ended June 30, 2016 and 2015, respectively.

9. 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.

9. LOAN PAYABLE (continued)

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 $46,202,398. 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.

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 2.90% (LIBOR plus 2.75 points) and 2.94% (LIBOR plus 2.75 points), respectively as of June 30, 2015.

9. LOAN PAYABLE (continued)

A seventh modification was executed on January 20, 2016. The maturity date of the note was extended to February 1, 2017 and the required unencumbered liquid assets were reduced from $8,000,000 to $6,000,000. The line of credit was closed and the principal balance of $9,702,397 which was allocated amongst the San Leandro Medical Arts Building ($2,806,000), the Eden Medical Building ($3,570,000), and marketable securities ($3,326,397) was consolidated with the notes commitment of $35,214,969 to form a single indebtedness in the principal amount of $44,917,367. The variable interest rate on the note was 3.21% (LIBOR plus 2.75 points) as of June 30, 2016.

Changes in the District's long-term liabilities for the fiscal year ended June 30, 2016:

	Balance, June 30, 2015	Additions	Paydowns	Balance, June 30, 2016	Amounts Due Within One Year
Bank loan	$ 44,917,367	$ -	$(33,197,588)	$ 11,719,779	$ 11,719,779

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

	Balance, June 30, 2014	Additions	Paydowns	Balance, June 30, 2015	Amounts Due Within One Year
Bank loan	$ 44,917,367	$ -	$ -	$ 44,917,367	$ 44,917,367

Scheduled net debt service payments including interest:

	Interest	Principal	Total
2017	$ 473,710	$ 13,687,114	$ 14,160,824
2018	78,497	1,967,335	2,045,832
2019	67,283	1,967,335	2,034,618
2020	56,069	1,967,335	2,023,404
2021	44,855	1,967,335	2,012,190
2022 - 2026	67,283	5,902,005	5,969,288
	$ 787,697	$ 27,458,459	$ 28,246,156

Scheduled net debt service payments includes the liability associated with damages awarded to Sutter Health. The damages award is a combination of losses incurred by Sutter Health for the duration of the lawsuit (March 2010 to April 2012) of $17,179,860, and legal fees and costs and interest of $2,493,493. Future interest payments to be made are based upon the current year treasury note rate.

10. MEDICAL OFFICE BUILDINGS - FUTURE RENTAL INCOME

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

Fiscal Year Ending June 30,	Eden Medical Building	San Leandro Medical Arts	Dublin Gateway	Total
2017	$ 360,452	$ 885,012	$ 2,238,348	$ 3,483,812
2018	323,610	745,157	2,296,409	3,365,176
2019	277,728	534,278	2,122,734	2,934,740
2020	269,323	412,694	2,085,781	2,767,798
2021	194,525	469,984	2,148,355	2,812,864
Thereafter	236,826	888,295	9,167,177	10,292,298
	$ 1,662,464	$ 3,935,420	$ 20,058,804	$ 25,656,688

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 $15,651 and $13,407 for the years ended June 30, 2016 and 2015, respectively.

12. COMMITMENTS AND CONTINGENCIES

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 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 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 had been funded by EMC (Sutter Health). The proposed purchase price by EMC (Sutter Health) is $0. The Trial Court ruled in favor of Sutter Health 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.

12. COMMITMENTS AND CONTINGENCIES (continued)

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, has not been determined and may remain subject to court determination or agreement with Sutter Health.

The District and Sutter Health 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. On January 5, 2016 Sutter Health filed an appeal with the Appeals Court contesting the judgment and the grant of a ten year payment plan and reduced interest rates. This case has been fully briefed and oral arguments have not been scheduled as of the date the financial statements were available to be issued.

The District owed Sutter Health $19,673,353 on the damages claim, court costs, fees and pre-judgment 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 second installment, due on June 30, 2016, was one-tenth of the amount owed, $1,967,335 plus interest for the period from January 8, 2015 to December 31, 2015, with the interest on a 1-Year Treasury Bill as of January 1, 2016. This payment was made on June 30, 2016. The remaining balance due on this obligation as of June 30, 2016, is $15,738,683.

13. SUBSEQUENT EVENTS

The District has evaluated subsequent events through December 12, 2016, the date the financial statements were available to be issued. No subsequent events have occurred, other than what is disclosed below, that would have a material impact on the presentation of the District's financial statements.

13. SUBSEQUENT EVENTS (continued)

New legislation

AB2737 Nonprovider Health Care Districts (Bonta), was signed into law on September 21, 2016 and takes effects on January 1, 2017. The legislation targets Districts that don't operate hospitals, clinics or ambulance services. The law mandates that if a healthcare district in California does not operate a hospital, clinic or ambulance service, then it shall contribute at least 80% of its annual budget on community grants awarded to organizations that provide direct health services and not more than 20% of its annual budget on administrative expenses. The parameters of this bill were established specifically to address the Eden Health District, and have subsequently been amended to be more general in nature and apply to all such Districts. The act does not have a specific enforcement mechanism so it is altogether unclear who is responsible for enforcing the law. Based on management's current analysis, it believes the District is in compliance with the new bill's requirements.

Litigation

On January 5, 2016 Sutter Health filed an appeal with the Appeals Court contesting the judgment and grant of a ten year payment plan and reduced interest rate for the damages award. On November 29, 2016 the court of appeals reversed the lower court’s decision for reduced interest during the period between the final judgment of the damages awarded (January 8, 2014) and the date of entry of the order granting the District annual payments over 10 years (June 17, 2015). Additional interest owed for this period is estimated to be approximately $1.8M; however, the final amount will be determined after a revised judgment is entered.

SUPPLEMENTARY INFORMATION

Eden Township Healthcare District
dba Eden Health District
Combining Statement of Net Position
For the Years Ended June 30, 2016 and 2015

ASSETS:	District Office	Dublin Gateway LP	San Leandro Medical Arts Building	Eden Medical Building	Eden Township Healthcare District Total	2015
Current assets						
Cash and cash equivalents	$ 607,409	$ 47,944	$ 15,176	$ 106	$ 670,635	$ 357,378
Restricted cash and investments	-	-	-	-	-	3,329,552
Receivable - other	19,738	-	-	-	19,738	31,458
Accounts receivable - tenants	-	97,628	17,425	22,533	137,586	49,150
Interest receivable	40,276	-	-	-	40,276	145,921
Prepaid expense	48,761	22,588	7,638	2,098	81,085	55,899
Total current assets	716,184	168,160	40,239	24,737	949,320	3,969,358
Capital assets						
Nondepreciable	-	11,061,645	116,012	2,008,758	13,186,415	13,140,149
Depreciable	6,531	20,857,435	2,111,753	6,792,874	29,768,593	60,985,369
Total capital assets	6,531	31,919,080	2,227,765	8,801,632	42,955,008	74,125,518
Other assets						
Investments	9,671,404	-	-	-	9,671,404	8,574,375
Deposit	-	-	750	-	750	750
Goodwill, net	84,641	-	-	-	84,641	95,221
Notes receivable	-	-	-	-	-	1,150,000
Prepaid leasing and loan costs	-	964,016	-	46,876	1,010,892	622,683
Total other assets	9,756,045	964,016	750	46,876	10,767,687	10,443,029
Total assets	$ 10,478,760	$ 33,051,256	$ 2,268,754	$ 8,873,245	$ 54,672,015	$ 88,537,905
LIABILITIES AND NET POSITION:						
Current liabilities						
Accounts payable and accrued liabilities	$ 87,667	$ 253,737	$ 18,467	$ 9,842	$ 369,713	$ 221,781
Interest payable	-	31,318	-	-	31,318	94,901
Security deposits held	-	132,890	6,656	33,961	173,507	173,507
Unearned rent	-	65,117	3,193	-	68,310	45,911
Grants payable	122,000	-	-	-	122,000	92,500
Settlement payable	1,967,335	-	-	-	1,967,335	1,967,335
Loan payable	-	11,719,779	-	-	11,719,779	44,917,367
Total current liabilities	2,177,002	12,202,841	28,316	43,803	14,451,962	47,513,302
Settlement payable	13,771,348	-	-	-	13,771,348	15,738,683
Total liabilities	15,948,350	12,202,841	28,316	43,803	28,223,310	63,251,985
Net assets						
Invested in capital assets, net of related debt	(15,732,153)	20,199,301	2,227,765	8,801,633	15,496,546	11,502,133
Restricted	-	-	-	-	-	3,330,302
Unrestricted	10,262,563	649,114	12,673	27,809	10,952,159	10,453,485
Total net assets	(5,469,590)	20,848,415	2,240,438	8,829,442	26,448,705	25,285,920
Total liabilities and net assets	$ 10,478,760	$ 33,051,256	$ 2,268,754	$ 8,873,245	$ 54,672,015	$ 88,537,905

See accompanying independent auditor's report.

Eden Township Healthcare District
dba Eden Health District
Combining Statement of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2016 and 2015

	District Office	Community Services	Dublin Gateway LP	San Leandro Medical Arts Building	Eden Medical Building	Eden Township Healthcare District Total	2015
Operating revenues							
Rental income	$ -	$ -	$ 2,928,617	$ 868,038	$ 346,212	$ 4,142,867	$ 4,707,863
Tenant reimbursements	-	-	867,263	-	95,461	962,724	947,041
Total operating revenues	-	-	3,795,880	868,038	441,673	5,105,591	5,654,904
Operating expenses							
Salaries and benefits	358,606	-	-	-	-	358,606	341,238
Consulting/Community education	70,769	38,176	-	-	-	108,945	106,686
Audit fees	31,029	-	(403)	-	-	30,626	30,016
Public relations	23,725	-	-	-	-	23,725	11,756
Legal fees	94,214	-	21,952	-	3,280	119,446	298,311
Insurance	35,045	-	23,175	12,003	4,793	75,016	74,373
Other purchased services	115,317	-	61	-	1,225	116,603	112,015
Rental property operating and maintenance	-	-	761,709	511,680	212,060	1,485,449	1,219,544
Taxes	-	-	332,095	-	-	332,095	394,664
Grants to service providers and community	-	1,728,722	-	-	-	1,728,722	223,330
Amortization	10,580	-	152,724	-	12,505	175,809	188,794
Depreciation	5,597	-	2,340,079	347,461	544,363	3,237,500	3,788,073
Total operating expenses	744,882	1,766,898	3,631,392	871,144	778,226	7,792,542	6,788,800
Allocation of operating expenses	(744,882)	186,747	383,809	92,073	82,253	-	-
Allocation percentage	- %	10.57 %	10.57 %	10.57 %	10.57 %		
Operating loss	-	(1,953,645)	(219,321)	(95,179)	(418,806)	(2,686,951)	(1,133,896)
Nonoperating revenues (expenses)							
Interest income	263,425	-	1,356	-	1,365	266,146	302,709
Interest expense	(130,187)	-	(875,725)	(49,124)	(62,674)	(1,117,710)	(1,377,901)
Change in fair value of investments	(39,115)	-	-	-	-	(39,115)	(153,346)
Settlement loss	-	-	-	-	-	-	(19,673,353)
Gain on sale of Dublin Gateway Building	-	-	4,740,414	-	-	4,740,414	637,964
Other gain	-	-	-	-	-	-	112,000
Total nonoperating revenues (expenses)	94,123	-	3,866,045	(49,124)	(61,309)	3,849,735	(20,151,927)
Allocation of nonoperating revenues	(94,123)	23,597	48,499	11,634	10,393	-	-
Change in net position	$ -	$ (1,930,048)	$ 3,695,223	$ (132,669)	$ (469,722)	$ 1,162,784	$ (21,285,823)

See accompanying independent auditor's report.