

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

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

Years Ended June 30, 2009 and 2008

**EDEN TOWNSHIP HEALTH CARE DISTRICT**

**Years Ended June 30, 2009 and 2008**

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SACRAMENTO

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LOS ANGELES

NEWPORT BEACH

SAN DIEGO

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of Eden Township Healthcare District (District), a California political subdivision, as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

*Macias Gini & O'Connell LLP*

Certified Public Accountants  
Walnut Creek, California

December 11, 2009

## **Management's Discussion and Analysis**

## EDEN TOWNSHIP HEALTHCARE DISTRICT

### Management's Discussion and Analysis Required Supplementary Information (Unaudited) For the Years Ended June 30, 2009 and 2008

This section of Eden Township's Healthcare District's (the "District") annual financial report includes some of management's insights and analysis of the District's financial performance for the year.

#### INTRODUCTION TO THE BASIC FINANCIAL STATEMENTS

The annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This standard is applicable to the District because it is a political subdivision of the State of California.

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

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

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

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

#### FINANCIAL OVERVIEW

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

	As of June 30,		
	2009	2008	2007 Revised*
ASSETS:			
Current assets	\$ 5,572,738	\$ 7,942,061	\$ 5,053,169
Other non-current assets	29,617,927	33,329,715	38,890,316
Capital assets	99,183,909	100,277,303	102,956,651
Total assets	<u>\$ 134,374,574</u>	<u>\$ 141,549,079</u>	<u>\$ 146,900,136</u>
LIABILITIES			
Current liabilities	\$ 55,799,158	\$ 3,404,032	\$ 7,037,769
Non-current liabilities	-	51,097,111	45,185,322
Total liabilities	<u>55,799,158</u>	<u>54,501,143</u>	<u>52,223,091</u>
NET ASSETS	<u>78,575,416</u>	<u>87,047,936</u>	<u>94,677,045</u>
Total liabilities and net assets	<u>\$ 134,374,574</u>	<u>\$ 141,549,079</u>	<u>\$ 146,900,136</u>

\*\$3,195,370 was reclassified from other non-current assets to current assets for fiscal year 2007. The represents certificates of deposit and bank deposits that have been reclassified from investments to cash and deposits on the statement of net assets to conform to the fiscal year 2008 presentation.

# EDEN TOWNSHIP HEALTHCARE DISTRICT

## Management's Discussion and Analysis Required Supplementary Information (Unaudited) For the Years Ended June 30, 2009 and 2008

### FINANCIAL OVERVIEW (Continued)

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

Net assets at June 30, 2008 decreased to \$87,047,936 from \$94,677,045 in 2007. Operating revenues increased \$902,107 and operating expenses increased by \$2,866,256 compared to 2007. In addition, interest expense increased \$2,498,351 compared to 2007. For 2008 the District operated at a loss

	For the Years Ended June 30,		
	2009	2008*	2007*
OPERATING RESULTS:			
Operating revenues	\$ 4,461,540	\$ 3,555,772	\$ 2,653,665
Less operating expenses	10,569,685	8,495,970	5,629,714
Operating loss	(6,108,145)	(4,940,198)	(2,976,049)
Net nonoperating revenues (expenses)	(2,364,375)	(2,688,911)	1,567,998
Change in net assets:	(8,472,520)	(7,629,109)	(1,408,051)
Net assets, beginning of year	87,047,936	94,677,045	96,085,096
Net assets, end of year	<u>\$ 78,575,416</u>	<u>\$ 87,047,936</u>	<u>\$ 94,677,045</u>

\* Change in fair value of investments of \$256,051 and \$1,298,768 was reclassified from operating revenues to nonoperating revenues (expenses) for fiscal year 2008 and 2007, respectively to conform to the fiscal year 2009 presentation. In fiscal year 2008, a total of \$237,398 was reclassified to interest income from change in fair value of investments (\$93,735) and interest expense (\$143,663).

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

For the year ended June 30, 2008, operating revenue increased to \$3,555,772 from \$2,653,665 in 2007. Increases in rental income of \$1,180,069 were offset with a decrease in interest income of \$203,158. Operating expenses increased by \$2,866,256 due primarily to an increase in depreciation expense of \$1,992,741 and grant expense of \$673,234. Decreases in the fair value of investments of \$1,042,717 contributed to an increase in change of net assets of \$6,221,058 from 2007 to 2008.

	For the Years Ended June 30,		
	2009	2008	2007
OPERATING REVENUES:			
Interest income	\$ 1,054,595	\$ 1,458,901	\$ 1,662,059
Rental income	2,994,078	1,770,587	590,518
Tenant reimbursements	412,867	326,284	401,088
Total operating revenue	<u>\$ 4,461,540</u>	<u>\$ 3,555,772</u>	<u>\$ 2,653,665</u>

**EDEN TOWNSHIP HEALTHCARE DISTRICT**

## Management's Discussion and Analysis

## Required Supplementary Information (Unaudited)

For the Years Ended June 30, 2009 and 2008

**FINANCIAL OVERVIEW (Continued)**

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

For the year ended June 30, 2008, rental income increased by \$1,180,069 due to the receipt of a full year of lease revenue from tenants occupying DGMC and one month of rental revenue from San Leandro Medical Art Building. In addition, interest income decreased by \$203,158 due to the sale of a significant portion of the District's investments to finance the purchase of DGMC. Furthermore the net change in fair value of the investments decreased by \$1,042,717 resulting from a decline in the market conditions.

OPERATING EXPENSES:	For the Years Ended June 30,		
	2009	2008	2007 Revised*
Purchased services:			
Outside services	\$ 1,219,254	\$ 1,376,264	\$ 743,947
Other	136,987	94,064	1,150,315
Rental property operating and maintenance :			
Management fees	355,491	130,041	-
Other	744,145	363,812	329,142
Taxes	275,135	352,987	1,600
Amortization	330,027	340,445	232,328
Depreciation	4,553,032	4,325,389	2,332,648
Grants to service providers	2,955,614	1,512,968	839,734
Total operating expenses	<u>\$ 10,569,685</u>	<u>\$ 8,495,970</u>	<u>\$ 5,629,714</u>

\* Sponsorship award of \$25,000 was reclassified from purchased services to grants to service providers.

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



## EDEN TOWNSHIP HEALTHCARE DISTRICT

### Management's Discussion and Analysis Required Supplementary Information (Unaudited) For the Years Ended June 30, 2009 and 2008

#### FINANCIAL OVERVIEW (Continued)

For the year ended June 30, 2008, operating expenses for the District increased by \$2,866,256. Depreciation expense increased \$1,992,741 due to the purchase of the DGMC in 2007. Outside services increased \$632,317 as a result of retainer agreements with Goldman, Sachs & Co. for financial advisory services related to negotiations with Sutter Health to construct an acute care hospital in Castro Valley, and for consulting services related to the development of various projects being considered by the District and fees for a communications and public affairs consultant. Grant expense also increased \$673,234 due to the Board approving additional grants in fiscal year 2008. Furthermore, property tax on the DGMC property increased \$351,387 over the previous year. Increases were offset with a decrease of \$1,056,251 in other purchased services due to the elimination of lease expense due to the purchase of the DGMC in 2007.

	For the Years Ended June 30,		
	2009	2008	2007*
NET ASSETS:			
Invested in capital assets, net of related debt	\$ 50,981,511	\$ 54,180,192	\$ 57,771,329
Restricted	26,168	857,445	1,116,526
Unrestricted	27,567,737	32,010,299	35,789,190
Total net assets	<u>\$ 78,575,416</u>	<u>\$ 87,047,936</u>	<u>\$ 94,677,045</u>

\* \$1,008,376 was reclassified from Unrestricted to Restricted for fiscal year 2007. This amount represents funds deposited in a restricted escrow account in fiscal year 2007 to be used by the City of San Leandro to construct a senior center. The amount has been reclassified on the statement of net assets and conforms to the fiscal year 2008 presentation.

At June 30, 2009, net assets decreased by \$8,472,520. Net assets invested in capital assets, net of related debt, decreased \$3,198,681 due to improvements to the Dublin Gateway Medical Center offset by depreciation expense. Restricted net assets decreased by \$831,277 due to the completion of the senior center in the City of San Leandro.

The District released Board designated funds during the fiscal year ended June 30, 2009. The original purpose of the building replacement fund no longer exists at year end. The community benefit fund was released and an allocation from both funds will be used to create a community health fund and an operating fund.

At June 30, 2008, net assets decreased by \$7,629,109. Net assets invested in capital assets, net of related debt, decreased by \$3,591,137 in fiscal year 2008 due to depreciation expense offset by tenant improvements to DGMC property and increases in the loan payable. Restricted net assets decreased by \$259,081 due to the commencement of construction activities on the senior center in the City of San Leandro. Board designated net assets at June 30, 2008 included \$2,305,849 for the building fund and \$34,129,359 for the community benefit fund. Changes in the designated fund balances from June 30, 2007 were due to allocations of interest income.



**EDEN TOWNSHIP HEALTHCARE DISTRICT**  
Management's Discussion and Analysis  
Required Supplementary Information (Unaudited)  
For the Years Ended June 30, 2009 and 2008

**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, 2009 and 2008, the District's investment in capital assets totaled \$99,183,909 and \$100,277,303. During 2009, the District's additions to depreciable capital assets were \$2,851,833 of which \$1,925,490 were related to tenant improvements and \$824,126 were related to common area building improvements at DGMC. Other additions of \$102,217 to capital assets during the year was related to the San Leandro Medical Arts building and District offices. The balance of construction in progress at June 30, 2009 was \$111,432 related to the DGMC facility and a total of \$534,673 related to the District's temporary medical offices under construction in 2009. During 2008, the District's additions to depreciable assets were \$1,662,014, of which \$1,612,096 was related to tenant improvements at the DGMC facility.

At June 30, 2009 and 2008, the District had outstanding balances on a note payable of \$48,202,398 and \$46,097,111, respectively. The bank loan was obtained during fiscal year 2007 as partial financing for the purchase of the DGMC property. The note payable increased by \$2,105,287 during fiscal year 2009 due to additional borrowings for improvements to the property. The note included a hold back provision for construction costs related to tenant improvements at the property.

The note payable matures on June 1, 2010. The terms of the note allow for two one year extensions subject to the banks satisfaction of certain conditions and subject to a fee of .00175% of the total commitment amount of the note (\$54,000,000). Additional information on the District's long-term liabilities can be found in Note 6 in the notes to the basic financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

At June 30, 2009 the construction of approximately 8,000 square feet of temporary medical office space is almost complete. The office space will be used to house EMC physicians during construction of the EMC replacement facility. Additional income and expense for the operation of the building is included in the fiscal year 2009-2010 budget. The District's two rental properties (San Leandro Medical Arts Building and the Dublin Gateway Medical Center) should have improved operating results in fiscal year 2009-2010 with increased occupancy and rental income. With the additional rental income from the temporary office space and improvement in the District's other rental properties, operating income should improve.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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

# EDEN TOWNSHIP HEALTHCARE DISTRICT

## Statements of Net Assets

June 30, 2009 and 2008

	2009	2008
<b>Assets</b>		
Current assets:		
Cash and deposits	\$ 4,830,566	\$ 6,873,500
Restricted cash	-	835,815
Receivable - other	28,017	5,190
Accounts receivable - tenants	377,045	51,298
Interest receivable	251,380	148,310
Prepaid expense	85,731	27,948
Total current assets	5,572,739	7,942,061
Other assets:		
Investments	25,898,313	29,389,915
Deposit	26,168	21,630
Goodwill, net	3,484,913	3,717,241
Other	208,532	200,929
Total other assets	29,617,926	33,329,715
Capital assets:		
Nondepreciable	16,499,930	15,892,125
Depreciable, net	82,683,979	84,385,178
Total capital assets, net	99,183,909	100,277,303
<b>Total assets</b>	<b>\$ 134,374,574</b>	<b>\$ 141,549,079</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 818,646	\$ 1,356,504
Taxes payable	1,850	96,023
Interest payable	78,406	148,135
Security deposits held	22,623	22,982
Unearned rent	235,257	218,771
Grants payable	6,439,978	1,561,617
Loan payable	48,202,398	-
Total current liabilities	55,799,158	3,404,032
Non-current liabilities:		
Grant payable to related party	-	5,000,000
Loan payable	-	46,097,111
Total non-current liabilities	-	51,097,111
<b>Total liabilities</b>	<b>55,799,158</b>	<b>54,501,143</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	50,981,511	54,180,192
Restricted	26,168	857,445
Unrestricted	27,567,737	32,010,299
<b>Total net assets</b>	<b>78,575,416</b>	<b>87,047,936</b>
<b>Total liabilities and net assets</b>	<b>\$ 134,374,574</b>	<b>\$ 141,549,079</b>

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

**EDEN TOWNSHIP HEALTHCARE DISTRICT**  
 Statements of Revenues, Expenses and Changes in Net Assets  
 For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Operating revenues:</b>		
Interest income	\$ 1,054,595	\$ 1,458,901
Rental income	2,994,078	1,770,587
Tenant reimbursements	412,867	326,284
Total operating revenues	<u>4,461,540</u>	<u>3,555,772</u>
<b>Operating expenses:</b>		
Purchased services	1,356,241	1,470,328
Rental property operating and maintenance	1,099,636	493,853
Taxes	275,135	352,987
Grants to service providers and community	2,955,614	1,512,968
Amortization	330,027	340,445
Depreciation	4,553,032	4,325,389
Total operating expenses	<u>10,569,685</u>	<u>8,495,970</u>
<b>Operating loss</b>	<u>(6,108,145)</u>	<u>(4,940,198)</u>
<b>Nonoperating revenues (expenses):</b>		
Interest expense	(2,153,050)	(2,892,590)
Change in fair value of investments	(571,405)	256,051
Other gain	360,080	-
Gain on sale of capital assets	-	1,900
Loss on disposal of capital assets	-	(54,272)
Total nonoperating revenues (expenses), net	<u>(2,364,375)</u>	<u>(2,688,911)</u>
<b>Change in net assets</b>	<u>(8,472,520)</u>	<u>(7,629,109)</u>
Net assets, beginning of year	87,047,936	94,677,045
Net assets, end of year	<u><u>\$ 78,575,416</u></u>	<u><u>\$ 87,047,936</u></u>

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

# EDEN TOWNSHIP HEALTHCARE DISTRICT

## Statements of Cash Flows

For Years Ended June 30, 2009 and 2008

	2009	2008
<b>Cash flows from operating activities:</b>		
Payments to suppliers	\$ (2,340,631)	\$ (2,332,987)
Grant payments	(3,100,080)	(1,509,635)
Rental receipts	3,092,787	2,408,456
Interest income	951,525	1,624,249
Tax payments	(369,308)	(258,564)
<b>Net cash used in operating activities</b>	<b>(1,765,707)</b>	<b>(68,481)</b>
<b>Cash flows from capital and related financing activities:</b>		
Proceeds from loans	1,078,617	-
Interest paid	(1,196,109)	(1,832,665)
Purchase of capital assets	(4,275,827)	(468,799)
<b>Net cash used in capital and related financing activities</b>	<b>(4,393,319)</b>	<b>(2,301,464)</b>
<b>Cash flows from investing activities:</b>		
Purchase of investments	(39,421,608)	(10,146,781)
Proceeds from sale of investments	28,346,618	27,626,548
Proceeds from interest in surgery center	360,080	-
<b>Net cash provided by (used in) investing activities</b>	<b>(10,714,910)</b>	<b>17,479,767</b>
<b>Net change in cash and cash equivalents</b>	<b>(16,873,936)</b>	<b>15,109,822</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>21,086,665</b>	<b>5,976,843</b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 4,212,729</b>	<b>\$ 21,086,665</b>
<b>Reconciliation of cash and cash equivalents:</b>		
Cash and deposits	\$ 4,830,566	\$ 6,873,500
Certificates of deposit not considered cash equivalents	(1,055,698)	-
Restricted cash	-	835,815
Investments - Money Market Funds	437,861	13,377,350
<b>Total cash and cash equivalents, end of the year</b>	<b>\$ 4,212,729</b>	<b>\$ 21,086,665</b>

*Continued*

**EDEN TOWNSHIP HEALTHCARE DISTRICT**

Statements of Cash Flows (Continued)  
For Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$ (6,108,145)	\$ (4,940,198)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	4,553,032	4,325,389
Amortization	330,027	340,445
Changes in assets and liabilities:		
Receivable - other	(22,827)	11,505
Accounts receivable - tenants	(325,747)	(18,055)
Interest receivable	(103,070)	165,348
Deposits	(4,538)	1,900
Prepaid expenses	(57,783)	(27,948)
Other assets	(105,302)	-
Accounts payable and accrued liabilities	278,331	(340,858)
Taxes payable	(94,173)	94,423
Security deposits payable	(359)	109,502
Unearned rent	16,486	206,733
Grants payable	(121,639)	3,333
	<u>(1,765,707)</u>	<u>(68,481)</u>
Net cash used in operating activities	<u>\$ (1,765,707)</u>	<u>\$ (68,481)</u>
<b>Supplemental disclosure of noncash investing, capital or financing activities:</b>		
Acquisition of capital assets on accounts payable	\$ 415,326	\$ 1,231,515
Loss on disposal of capital assets	-	54,273
Change in fair value of investments	571,405	(256,051)
Interest expense financed by loan payable	1,026,670	911,789

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

## **Basic Financial Statements**

## **EDEN TOWNSHIP HEALTHCARE DISTRICT**

Notes to Basic Financial Statements  
For the Years Ended June 30, 2009 and 2008

### **(1) ORGANIZATION**

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

The terms of the affiliation and transfer of net assets, as set forth in the First Amended Memorandum of Understanding (the "MOU"), stipulated that the District retain certain assets – the most significant of which are the funds historically designated by the Board for the future replacement, expansion and improvement of the District's capital assets and certain liabilities. Substantially all of the remaining assets and liabilities, as set forth in the MOU, were transferred to EMC.

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

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

The District owns three medical office properties; Dublin Gateway Medical Center, San Leandro Medical Arts Building and the Lake Chabot property. The three properties are managed by professional commercial property managers. The District leased the San Leandro Medical Arts Building to Sutter Health prior to June 1, 2008 at which time Sutter Health terminated its leasehold interest in the building. The Lake Chabot property was purchased in September 2004. The District intends to construct permanent buildings on the Lake Chabot property in the fall of 2010.

### **(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Basis of Accounting and Presentation***

The basic financial statements provide information about the District's enterprise fund. The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. On an accrual basis, revenues from operating activities are recognized in the fiscal year that the services were provided and revenue from investments is recognized when earned.



## **EDEN TOWNSHIP HEALTHCARE DISTRICT**

### **Notes to Basic Financial Statements (Continued)**

For the Years Ended June 30, 2009 and 2008

#### **(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

##### ***Cash and Investments***

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.

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.

##### ***Investment Valuation***

Investments in participating interest-earning investment contracts are to be 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. The fair value represents the amount the District could reasonably expect to receive for an investment in a current sale between a willing buyer and seller. Investment income or loss (including realized gains and losses on investments, interest and dividends) and unrealized gains and losses on investments are reported in the statements of revenues, expenses and changes in net assets.

##### ***Capital Assets***

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

##### ***Use of Estimates***

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

##### ***Reclassifications***

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

## EDEN TOWNSHIP HEALTHCARE DISTRICT

Notes to Basic Financial Statements (Continued)

For the Years Ended June 30, 2009 and 2008

### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Operating Revenues and Expenses*

The District distinguishes operating revenues from non-operating items. Operating revenues result from rental property revenues and interest income earned on investments. Non-operating revenues include revenue related to sales of capital assets, fair value changes on investments and revenue related to interests in medical facilities. Operating expenses are all expenses incurred to provide operating revenue, other than financing costs and grants to service providers and community funded by interest income.

#### *Effects of New Pronouncements*

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. The District applied provisions of this statement during the fiscal year ended June 30, 2009, and determined there was no effect on the financial statements for the years ended June 30, 2009 and 2008.

The District is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement is intended to improve how state and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. This Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements. This statement is effective for the District's fiscal year ending June 30, 2010.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Application of this statement is effective for the District's fiscal year ending June 30, 2010.

## EDEN TOWNSHIP HEALTHCARE DISTRICT

Notes to Basic Financial Statements (Continued)

For the Years Ended June 30, 2009 and 2008

### (3) CASH AND INVESTMENTS

At June 30, 2009 and 2008, the balances on deposit at financial institutions in excess of federal depository insurance limits totaled \$3,434,849 and \$8,396,683, respectively and were held in uncollateralized accounts. All of the District's investments, excluding the annuity contract, are held by the same broker-dealer.

#### *Deposits - Custodial Credit Risk*

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment that is in the possession of another party. The District does not have a policy for custodial credit risk on deposits or investments. Under the California Government Code, a financial institution is required to secure deposits in excess of \$100,000 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.

#### *Investments*

At June 30, 2009 and 2008, investments consisted of the following at fair value:

	2009	2008
Cash equivalents - money market funds	\$ 437,858	\$ 13,377,350
Contract with insurance company	1,681,665	1,639,043
US Treasury notes	7,447,418	-
US government agency securities	4,775,311	4,995,143
Corporate bonds	11,556,061	9,378,379
Total investments	<u>\$ 25,898,313</u>	<u>\$ 29,389,915</u>

# EDEN TOWNSHIP HEALTHCARE DISTRICT

Notes to Basic Financial Statements (Continued)

For the Years Ended June 30, 2009 and 2008

## (3) CASH AND INVESTMENTS (continued)

### *Investments Authorized by the California Government Code*

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

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

At June 30, 2009 and 2008, the District held an investment in an annuity contract with an insurance company in the amount of \$1,639,043 and \$1,681,665, respectively. This District is not permitted to invest in this investment type under the California Government Code.

### *Interest Rate Risk*

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have any policies specifically addressing interest rate risk. At June 30, 2009 and 2008, scheduled maturities of fixed income securities consisted of the following:

	2009	2008
Maturing in		
Less than 1 year	\$ 3,041,755	\$ 14,475,334
1 year to 5 years	21,174,893	12,554,113
5 years to 10 years	1,681,665	2,360,468
Total	<u>\$ 25,898,313</u>	<u>\$ 29,389,915</u>

**EDEN TOWNSHIP HEALTHCARE DISTRICT**

Notes to Basic Financial Statements (Continued)

For the Years Ended June 30, 2009 and 2008

**(3) CASH AND INVESTMENTS (continued)**

At June 30, 2009, the District held investments in callable and floating rate federal agency issues in the amount of \$736,996. These issues are highly sensitive to interest rate changes and the federal agency issues are callable at par at a set date prior to maturity based on these rate changes. In addition, at June 30, 2009, the District invested in a corporate bond issue in the amount of \$1,936,020 that adjusts with the consumer price index.

At June 30, 2008, the District held investments in callable and floating rate federal agency issues in the amount of \$4,995,143 and a corporate bond issue in the amount of \$1,999,580 that adjusts with the consumer price index.

***Credit Risk***

The District's credit rating risk is governed by Section 53601 of the California Government Code, which, among others, limits investments in money market mutual funds to those funds with the highest ranking by at least one of the national rating agencies and investments in corporate bonds are limited to those with a minimum ranking of A by at least one national rating agencies. There are no investment limits on the securities of U.S. Treasury or certain U.S. government agencies 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, 2009 and 2008:

	2009	2008
AAA	\$ 13,347,959	\$ 4,995,143
AA1-AA3	1,139,299	6,547,529
A1-A3	7,780,987	2,830,850
BAA1 - BAA2	1,510,543	-
Not rated	2,119,525	15,016,393
Total	<u>\$ 25,898,313</u>	<u>\$ 29,389,915</u>

# EDEN TOWNSHIP HEALTHCARE DISTRICT

Notes to Basic Financial Statements (Continued)

For the Years Ended June 30, 2009 and 2008

## (3) CASH AND INVESTMENTS (continued)

### *Concentration of Credit Risk*

The District diversifies its portfolio as required by the California Government Code. At June 30, 2009 and 2008, more than 5 percent of the District's investments are invested in the following:

	2009	2008
Morgan Stanley Trust Funds	-	52.2%
John Hancock Life Insurance Company	7.5%	6.8%
HSBC Finance Corporation	-	6.4%
International Lease Finance Corporation	6.3%	6.4%
New York Life	6.5%	-
American International Group	-	5.6%
National City Corporation	7.6%	-
Federal Home Loan Mortgage Corporation	7.3%	6.1%
Federal National Mortgage Association	13.9%	8.4%

## (4) CAPITAL ASSETS

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

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008
<i>Capital assets, not being depreciated:</i>				
Land	\$ 15,853,825	\$ -	\$ -	\$ 15,853,825
Construction in progress	-	38,300	-	38,300
Total capital assets, not being depreciated	15,853,825	38,300	-	15,892,125
<i>Capital assets, being depreciated:</i>				
Land improvements	480,072	-	-	480,072
Building	89,312,301	41,396	-	89,353,697
Tenant improvements	-	1,612,096	-	1,612,096
Equipment	3,757,845	8,522	(245,611)	3,520,756
Total capital assets, being depreciated	93,550,218	1,662,014	(245,611)	94,966,621
<i>Less: accumulated depreciation:</i>	(6,447,392)	(4,325,389)	191,339	(10,581,442)
Total capital assets, being depreciated, net	87,102,826	(2,663,375)	(54,272)	84,385,179
Total capital assets, net	\$ 102,956,651	\$ (2,663,375)	\$ (54,272)	\$ 100,277,304

# EDEN TOWNSHIP HEALTHCARE DISTRICT

Notes to Basic Financial Statements (Continued)

For the Years Ended June 30, 2009 and 2008

## (4) CAPITAL ASSETS (Continued)

Changes in capital assets consist of the following for the year ended June 30, 2008:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009
<i>Capital assets, not being depreciated:</i>				
Land	\$ 15,853,825	\$ -	\$ -	\$ 15,853,825
Construction in progress	38,300	607,805	-	646,105
Total capital assets, not being depreciated	15,892,125	607,805	-	16,499,930
<i>Capital assets, being depreciated:</i>				
Land improvements	480,072	65,403	-	545,475
Building	89,353,697	824,126	-	90,177,823
Tenant improvements	1,612,095	1,925,490	(3,533)	3,534,052
Equipment	3,520,756	36,814	(13,340)	3,544,230
Total capital assets, being depreciated	94,966,620	2,851,833	(16,873)	97,801,580
<i>Less: accumulated depreciation:</i>	(10,581,442)	(4,553,032)	16,873	(15,117,601)
Total capital assets, being depreciated, net	84,385,178	(1,701,199)	-	82,683,979
Total capital assets, net	\$ 100,277,303	\$ (1,093,394)	\$ -	\$ 99,183,909

## (5) GOODWILL

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

	2009	2008
Goodwill	\$ 4,646,553	\$ 4,646,553
Less accumulated amortization	(1,161,640)	(929,312)
Total	\$ 3,484,913	\$ 3,717,241

Amortization expense related to goodwill totaled \$232,328 for both the years ended June 30, 2009 and 2008.



**EDEN TOWNSHIP HEALTHCARE DISTRICT**

Notes to Basic Financial Statements (Continued)

For the Years Ended June 30, 2009 and 2008

**(6) LONG-TERM LIABILITIES**

At June 30, 2009, and 2008, the District's long-term liabilities were as follows:

Type of Indebtedness	Maturity	Interest Rate	Annual Principal Installment	Original Issue Amount	Outstanding at June 30, 2009	Outstanding at June 30, 2008
Bank Loan	6/1/2010	Variable*	\$0	<u>\$ 54,000,000</u>	<u>\$ 48,202,398</u>	<u>\$ 46,097,111</u>

\* Projected interest payments for the variable rate debt are based on 1.97% and 4.11% on \$19 million and 4.82% and 4.33% on the remaining balance at June 30, 2009 and 2008, respectively.

The bank loan is secured by the property and guaranteed by the District. The terms of the bank loan include three holdback reserves where TGD LP was permitted to draw on funds for construction and related tenant improvements to the property. The holdback reserves included the following related to DGMC: \$7,000,000 for tenant improvements, \$500,000 for the payment of leasing commissions and \$1,400,000 to fund additional interest payments due under the swap agreement. The District has financed total interest from the holdback reserve of \$1,111,991 and \$997,111 as of June 30, 2009 and 2008, respectively. The District funded tenant improvements of \$1,990,407 during the year ended June 30, 2009 with draws on the tenant improvement reserve. (None in fiscal year 2008)

The bank loan matures on June 1, 2010. The terms of the note allow for two one year extensions subject to the banks satisfaction of certain conditions and subject to a fee of .00175% of the total commitment amount of the note (\$54,000,000).

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

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

Changes in the District's long-term liabilities for the fiscal year ended June 30, 2008:

	July 1, 2007	Additions	Retirements	June 30, 2008
Bank loan	<u>\$ 45,185,322</u>	<u>\$ 911,789</u>	<u>\$ -</u>	<u>\$ 46,097,111</u>

# EDEN TOWNSHIP HEALTHCARE DISTRICT

Notes to Basic Financial Statements (Continued)

For the Years Ended June 30, 2009 and 2008

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

The District's annual debt service requirement to maturity as of June 30, 2009, is as follows:

	Principal	Interest	Total
Year Ended June 30, 2010	\$ 48,202,398	\$ 1,663,895	\$ 49,866,293

**Interest Rate Swap Agreement.** On May 17, 2007, the Triad Dublin Gateway, LP, obtained a bank loan in the amount of \$54,000,000, for which the District is the guarantor. The loan was obtained to finance a portion of the purchase of the Dublin Gateway Medical Center (DGMC). As a means to lower its borrowing costs, TDG LP entered into an interest rate swap agreement.

**Objective of the Interest Rate Swap.** At the time of issuance of the bank loan on May 17, 2007, TDG LP simultaneously entered into an interest rate swap agreement with U.S. Bank in connection with \$19,000,000 of the variable rate \$54,000,000 loan. The intention of the swap was to effectively change the District's variable interest rates on the loan to a synthetic fixed rate of 6.785%.

**Significant Terms.** The loan and related swap agreement matures on June 1, 2010, and the swap's notional amount and par amount of the bank loan was \$19,000,000. Under the swap, the District pays the counterparty a fixed payment of 5.135% and receives a variable payment computed at one month LIBOR (variable rate on the note is LIBOR plus 1.650%).

**Fair Value.** The swap had an aggregate negative fair value of (\$763,893) and (\$649,150) at June 30, 2009 and 2008, respectively. Since the coupon on the District's variable rate loan adjusts to changing interest rates, there is a corresponding fair value increase or decrease. The fair value is the net present value of the swap using market data and the terms of the swap, which include the expectations of the probability of occurrence of certain underlying events as defined in the agreement.

**Credit Risk.** The aggregate fair value of the swap represented the District's credit exposure to the counterparties as of June 30, 2009 and 2008. Should the counterparties fail to perform according to terms of the swap contract, the District faces a maximum possible (loss) gain equivalent to the aggregate negative fair value of (\$763,893) at June 30, 2009.

**Termination Risk.** The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract.

**Swap Payments and Associated Debt.** Using rates at June 30, 2009, debt service requirements of the net variable-rate debt and swap payments, assuming current interest rates remain the same for their term, were as follows.

	Principal	Variable Rate Interest* (A)	Swap, Net Interest/Swap (B)	Subtotal Interest (A+B)
June 30, 2010	\$ 19,000,000	\$ 343,108	\$ 838,613	\$ 1,181,721

\* Projected interest payments for the variable rate debt is based on the 1.970% rate in effect on June 30, 2009.

## EDEN TOWNSHIP HEALTHCARE DISTRICT

Notes to Basic Financial Statements (Continued)

For the Years Ended June 30, 2009 and 2008

### (7) AGREEMENTS WITH RELATED ORGANIZATIONS

The District was managed under an agreement with EMC. The agreement was terminated at the end of the fiscal year 2008, a total of \$300,000 in management fees were paid to EMC for the year ended June 30, 2008. The District is currently being managed by independent contractors under certain agreements for services.

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

In February 2006, the District approved a grant to EMC in the amount of \$2,000,000 for the Women's Health Services department for construction, advertising and operative/administrative cost over a two-year period. As of June 30, 2009 and 2008, the balance of the grant payable is \$1,000,000.

In fiscal year 2004 the District approved a grant to EMC in the amount of \$5,000,000 to be used for the continued development of the neuroscience center. At June 30, 2009 and 2008, included in grants payable is a total amount of \$5,000,000 outstanding on this grant.

### (8) NET ASSETS

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

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

***Restricted Net Assets*** – This component of net assets consists of constraints imposed by creditors (such as through debt covenants), grantors, contributions, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. As of June 30, 2009 and 2008, the District reported \$26,168 and \$857,445 in restricted net assets, respectively, primarily related to the restricted escrow account established in fiscal year 2007 for the construction of the a senior center in City of San Leandro and the DGMC facility and restricted deposits held for the City of Dublin.

***Unrestricted Net Assets*** – This category represents net assets of the District not restricted for any project or purpose. Portions of unrestricted net assets may be designated to indicate tentative plans for financial resource utilization in a future period. Such plans or intent are subject to change and have not been legally authorized or may not result in expenditures. The District temporarily released Board designated funds during the fiscal year ended June 30, 2009. The original purpose of the building replacement fund no longer exists at year end. The community benefit fund was released and an allocation from both funds will be used to create a community health fund and an operating fund.

**EDEN TOWNSHIP HEALTHCARE DISTRICT**

Notes to Basic Financial Statements (Continued)

For the Years Ended June 30, 2009 and 2008

**(9) MEDICAL OFFICE BUILDINGS – RENTAL INCOME**

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

Fiscal year ending June 30,	San Leandro Medical Arts	Dublin Gateway	Total
2010	927,612	2,223,566	3,151,178
2011	951,719	2,290,268	3,241,987
2012	974,790	2,358,980	3,333,770
2013	998,185	2,429,755	3,427,940
2014	1,022,141	2,502,652	3,524,793
Thereafter	5,490,667	16,673,839	22,164,506
Total minimum lease rentals	<u>\$ 10,365,114</u>	<u>\$ 28,479,060</u>	<u>\$ 38,844,174</u>

As of June 30, 2009 there were no signed lease agreements for the Lake Chabot property.

**(10) SUBSEQUENT EVENT AND LITIGATION**

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

If the option is exercised, the purchase price is equal to the net book value of the SLH recorded by the District, less total cash losses incurred by EMC during period of operation, and less total capital expenditures. The SLH has operated at a loss during the lease agreement which has been funded by EMC (Sutter Health). The proposed purchase price from EMC (Sutter Health) is \$0. This would represent a reduction of approximately \$17,500,000 from the book value of SLH based on the District's records.

EMC (Sutter Health) filed a demand for arbitration pursuant to the terms of the lease agreement in October 2009 and simultaneously filed a civil action in the Superior Court of Alameda County seeking specific performance, delay damages of \$5,000,000, a constructive trust and declaratory relief against the District. EMC (Sutter Health) additionally filed an application to stay the civil action in Alameda County until completion of the arbitration.

EMC (Sutter Health) made public plans to close SLH. The District is reviewing the suit based on advice from legal counsel and exploring any potential options which would allow the facility to continue to operate as an acute care hospital. No assurance can be given that this matter will be resolved in the District's favor or without incurring material losses and litigation costs. At this time an estimate of the potential loss associated with the damages claim by EMC (Sutter Health) can not be estimated but may materially impact the District.

## **EDEN TOWNSHIP HEALTHCARE DISTRICT**

Notes to Basic Financial Statements (Continued)

For the Years Ended June 30, 2009 and 2008

### **(11) CONTINGENCIES**

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

The District's current financing for the Dublin Gateway Medical Center matures on June 1, 2010. The balance due on the note at June 30, 2009 is \$48,202,398. There are no alternative financing arrangements in place at the time the financial statements were issued and the District does not currently have the liquid assets available to meet the maturity payment at June 1, 2010. Management has engaged a consultant to assist the District in obtaining new financing with more favorable terms than the current note. Management plans to refinance the balance due at maturity in June 2010 with a long term note payable secured by the property.

**EDEN TOWNSHIP HEALTHCARE DISTRICT**

Combining Statements of Net Assets

June 30, 2009

(With Comparative Totals as of June 30, 2008)

	<b>Eden Township Healthcare District</b>	<b>Triad Dublin Gateway, LP</b>	<b>Combined Total</b>	<b>Combined 2008</b>
<b>Assets</b>				
Current assets:				
Cash and deposits	\$ 4,174,909	\$ 655,657	\$ 4,830,566	\$ 6,873,500
Restricted cash	-	-	-	835,815
Receivable - other	28,017	-	28,017	5,190
Accounts receivable - tenants	81,734	295,311	377,045	51,298
Interest receivable	251,380	-	251,380	148,310
Prepaid expense	60,800	24,931	85,731	27,948
Total current assets	<u>4,596,840</u>	<u>975,899</u>	<u>5,572,739</u>	<u>7,942,061</u>
Other assets:				
Investments	25,898,313	-	25,898,313	29,389,915
Deposit	4,538	21,630	26,168	21,630
Goodwill, net	3,484,913	-	3,484,913	3,717,241
Other	-	208,532	208,532	200,929
Total other assets	<u>29,387,764</u>	<u>230,162</u>	<u>29,617,926</u>	<u>33,329,715</u>
Capital assets:				
Nondepreciable	5,388,498	11,111,432	16,499,930	15,892,125
Depreciable, net	<u>17,456,896</u>	<u>65,227,083</u>	<u>82,683,979</u>	<u>84,385,178</u>
Total capital assets, net	<u>22,845,394</u>	<u>76,338,515</u>	<u>99,183,909</u>	<u>100,277,303</u>
<b>Total assets</b>	<u><u>\$ 56,829,998</u></u>	<u><u>\$ 77,544,576</u></u>	<u><u>\$ 134,374,574</u></u>	<u><u>\$ 141,549,079</u></u>
<b>Liabilities and net assets</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 389,559	\$ 429,087	\$ 818,646	\$ 1,356,504
Taxes payable	-	1,850	1,850	96,023
Interest payable	-	78,406	78,406	148,135
Security deposits held	6,146	16,477	22,623	22,982
Unearned rent	43,602	191,655	235,257	218,771
Grants payable	6,439,978	-	6,439,978	1,561,617
Loan payable	-	48,202,398	48,202,398	-
Total current liabilities	<u>6,879,285</u>	<u>48,919,873</u>	<u>55,799,158</u>	<u>3,404,032</u>
Non-current liabilities:				
Grant payable to related party	-	-	-	5,000,000
Loan payable	-	-	-	46,097,111
Total non-current liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,097,111</u>
<b>Total liabilities</b>	<u>6,879,285</u>	<u>48,919,873</u>	<u>55,799,158</u>	<u>54,501,143</u>
<b>Net assets</b>				
Invested in capital assets, net of related debt	22,845,394	28,136,117	50,981,511	54,180,192
Restricted	4,538	21,630	26,168	857,445
Unrestricted	<u>27,100,781</u>	<u>466,956</u>	<u>27,567,737</u>	<u>32,010,299</u>
Total net assets	<u>49,950,713</u>	<u>28,624,703</u>	<u>78,575,416</u>	<u>87,047,936</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 56,829,998</u></u>	<u><u>\$ 77,544,576</u></u>	<u><u>\$ 134,374,574</u></u>	<u><u>\$ 141,549,079</u></u>



**EDEN TOWNSHIP HEALTHCARE DISTRICT**  
Combining Statements of Revenues, Expenses and Changes in Net Assets  
For the Year Ended June 30, 2009  
(With Comparative Totals as of June 30, 2008)

	<b>Eden Township Healthcare District</b>	<b>Triad Dublin Gateway, LP</b>	<b>Combined Total</b>	<b>Combined 2008</b>
<b>Operating revenues</b>				
Interest income	\$ 1,046,720	\$ 7,875	\$ 1,054,595	\$ 1,458,901
Rental income	985,665	2,008,413	2,994,078	1,770,587
Tenant reimbursements	6,957	405,910	412,867	326,284
Total operating revenues	<u>2,039,342</u>	<u>2,422,198</u>	<u>4,461,540</u>	<u>3,555,772</u>
<b>Operating expenses</b>				
Purchased services	1,356,241	-	1,356,241	1,470,328
Rental property operating and maintenance	509,058	590,578	1,099,636	493,853
Taxes	-	275,135	275,135	352,987
Grants to service providers and community	2,955,614	-	2,955,614	1,512,968
Amortization	232,328	97,699	330,027	340,445
Depreciation	2,064,839	2,488,193	4,553,032	4,325,389
Total operating expenses	<u>7,118,080</u>	<u>3,451,605</u>	<u>10,569,685</u>	<u>8,495,970</u>
<b>Operating loss</b>	<u>(5,078,738)</u>	<u>(1,029,407)</u>	<u>(6,108,145)</u>	<u>(4,940,198)</u>
<b>Nonoperating revenues (expenses):</b>				
Interest expense	(688,881)	(1,464,169)	(2,153,050)	(2,892,590)
Change in fair value of investments	(571,405)	-	(571,405)	256,051
Other gain	360,080	-	360,080	-
Gain on sale of capital assets	-	-	-	1,900
Loss on disposal of capital assets	-	-	-	(54,272)
Net nonoperating revenues (expenses)	<u>(900,206)</u>	<u>(1,464,169)</u>	<u>(2,364,375)</u>	<u>(2,688,911)</u>
<b>Net loss before transfers</b>	<u>(5,978,944)</u>	<u>(2,493,576)</u>	<u>(8,472,520)</u>	<u>(7,629,109)</u>
Transfer in	-	2,141,445	2,141,445	921,000
Transfer out	<u>(2,141,445)</u>	<u>-</u>	<u>(2,141,445)</u>	<u>(921,000)</u>
<b>Change in net assets</b>	<u>(8,120,389)</u>	<u>(352,131)</u>	<u>(8,472,520)</u>	<u>(7,629,109)</u>
<b>Net assets, beginning of year</b>	<u>58,071,102</u>	<u>28,976,834</u>	<u>87,047,936</u>	<u>94,677,045</u>
<b>Net assets, end of year</b>	<u>\$ 49,950,713</u>	<u>\$ 28,624,703</u>	<u>\$ 78,575,416</u>	<u>\$ 87,047,936</u>



**EDEN TOWNSHIP HEALTHCARE DISTRICT**

Combining Statement of Cash Flows

For the Year Ended June 30, 2009

(With Comparative Totals as of June 30, 2008)

	<b>Eden Township Healthcare District</b>	<b>Triad Dublin Gateway, LP</b>	<b>Combined Total</b>	<b>Combined 2008</b>
<b>Cash flows from operating activities:</b>				
Payments to suppliers	\$ (1,649,478)	\$ (691,153)	\$ (2,340,631)	\$ (2,332,987)
Grant payments	(3,100,080)	-	(3,100,080)	(1,509,635)
Rental receipts	906,168	2,186,619	3,092,787	2,408,456
Interest income received	943,650	7,875	951,525	1,624,249
Tax payments	-	(369,308)	(369,308)	(258,564)
<b>Net cash provided by (used in) operating activities</b>	<b>(2,899,740)</b>	<b>1,134,033</b>	<b>(1,765,707)</b>	<b>(68,481)</b>
<b>Cash flows from capital and related financing activities:</b>				
Proceeds from loans	-	1,078,617	1,078,617	-
Interest paid	(688,881)	(507,228)	(1,196,109)	(1,832,665)
Purchase of capital assets	(634,055)	(3,641,772)	(4,275,827)	(468,799)
Interfund transfers	(2,141,445)	2,141,445	-	-
<b>Net cash used in capital and related financing activities</b>	<b>(3,464,381)</b>	<b>(928,938)</b>	<b>(4,393,319)</b>	<b>(2,301,464)</b>
<b>Cash flows from investing activities:</b>				
Purchase of investments	(39,421,608)	-	(39,421,608)	(10,146,781)
Proceeds from sale of investments	28,346,618	-	28,346,618	27,626,548
Proceeds from interest in surgery center	360,080	-	360,080	-
<b>Net cash provided by (used in) investing activities</b>	<b>(10,714,910)</b>	<b>-</b>	<b>(10,714,910)</b>	<b>17,479,767</b>
<b>Net change in cash and cash equivalents</b>	<b>(17,079,031)</b>	<b>205,095</b>	<b>(16,873,936)</b>	<b>15,109,822</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>20,636,103</b>	<b>450,562</b>	<b>21,086,665</b>	<b>5,976,843</b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 3,557,072</b>	<b>\$ 655,657</b>	<b>\$ 4,212,729</b>	<b>\$ 21,086,665</b>
<b>Reconciliation of cash and cash equivalents:</b>				
Cash and deposits	\$ 4,174,909	\$ 655,657	\$ 4,830,566	\$ 6,873,500
Certificates of deposit not considered cash equivalents	(1,055,698)	-	(1,055,698)	-
Restricted cash	-	-	-	835,815
Investments - Money Market Funds	437,861	-	437,861	13,377,350
<b>Total cash and cash equivalents, end of the year</b>	<b>\$ 3,557,072</b>	<b>\$ 655,657</b>	<b>\$ 4,212,729</b>	<b>\$ 21,086,665</b>

*Continued*

**EDEN TOWNSHIP HEALTHCARE DISTRICT**

Combining Statement of Cash Flows (Continued)

For the Year Ended June 30, 2009

(With Comparative Totals as of June 30, 2008)

	<u>Eden Township Healthcare District</u>	<u>Triad Dublin Gateway LP</u>	<u>Combined Total</u>	<u>Combined 2008</u>
<b>Reconciliation of operating loss to net cash provided by (used in) operating activities:</b>				
Operating loss	\$ (5,078,738)	\$ (1,029,407)	\$ (6,108,145)	\$ (4,940,198)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation	2,064,839	2,488,193	4,553,032	4,325,389
Amortization	232,328	97,699	330,027	340,445
Changes in assets and liabilities:				
Receivable - other	(22,827)	-	(22,827)	11,505
Accounts receivable - tenants	(81,734)	(244,013)	(325,747)	(18,055)
Interest receivable	(103,070)	-	(103,070)	165,348
Deposits	(4,538)	-	(4,538)	1,900
Prepaid expenses	(60,800)	3,017	(57,783)	(27,948)
Other assets	-	(105,302)	(105,302)	-
Accounts payable and accrued liabilities	276,621	1,710	278,331	(340,858)
Taxes payable	-	(94,173)	(94,173)	94,423
Security deposits payable	(2,775)	2,416	(359)	109,502
Unearned rent	2,593	13,893	16,486	206,733
Grants payable	(121,639)	-	(121,639)	3,333
<b>Net cash provided by (used in) operating activities</b>	<u><u>\$ (2,899,740)</u></u>	<u><u>\$ 1,134,033</u></u>	<u><u>\$ (1,765,707)</u></u>	<u><u>\$ (68,481)</u></u>
<b>Supplemental disclosure of noncash investing, capital or financing activities:</b>				
Acquisition of capital assets on accounts payable	\$ -	\$ 415,326	\$ 415,326	\$ 1,231,515
Loss on disposal of capital assets	-	-	-	54,273
Change in fair value of investments	571,405	-	571,405	(256,051)
Interest expense financed by loan payable	-	1,026,670	1,026,670	911,789