## **Eden Township Healthcare District**

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

June 30, 2014 and 2013



## TABLE OF CONTENTS

	Page No.
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis (Required Supplementary Information)	3 - 7
Basic Financial Statements:	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11 - 23
Supplemental Information	
Combining Statement of Net Position	24
Combining Statement of Revenues, Expenses and Changes in Net Position	25



#### INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Eden Township Healthcare District (the "District"), as of and for the year ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

#### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2014 and 2013, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Other Matters**

#### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### Other Information

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

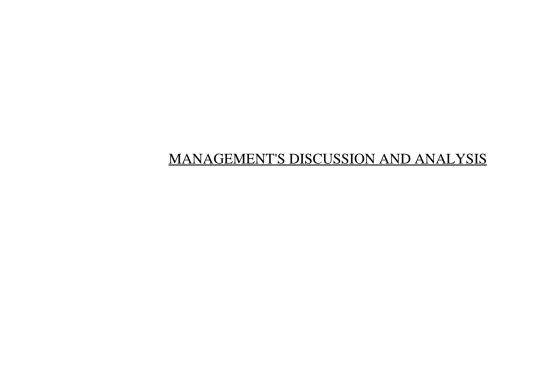
The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic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

 $Armanino^{LLP} \\$ 

San Ramon, California

Aumanino LLP

September 25, 2014



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

\_\_\_\_\_

This section of the Eden Township Healthcare District's (the "District") annual financial report includes some of management's insights and analysis of the District's financial performance for the years ended June 30, 2014 and 2013.

#### 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 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,					
		2014		2013		2012
ASSETS:		-		-		_
Current assets	\$	3,876,091	\$	4,285,003	\$	5,767,924
Other non-current assets		10,591,116		11,323,437		14,677,294
Capital assets		77,591,798		80,672,262		81,146,016
Total assets	\$	92,059,005	\$	96,280,702	\$	101,591,234
LIABILITIES						
Current liabilities	\$	569,893	\$	2,223,199	\$	48,996,246
Non-current liabilities		44,917,367		44,917,367		_
Total liabilities		45,487,260		47,140,566		48,996,246
NET ASSETS		46,571,745		49,140,136		52,594,988
Total liabilities and net position	\$	92,059,005	\$	96,280,702	\$	101,591,234

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

·

Net position at June 30, 2014 decreased to \$46,571,745 from \$49,140,136 in 2013. Capital assets decreased by \$3,080,464 primarily due to the current year depreciation expense of \$3,894,976 which was offset with new investments in tenant and building improvements. Of these investments \$327,735 were tenant improvements and \$171,830 were building improvements at the Eden Medical Building (EMB), \$96,139 were tenant improvements and \$129,928 were building improvements at the San Leandro Medical Arts Building (SLMAB) and \$13,976 were building improvements and \$8,105 were land improvements at Dublin Gateway. Additionally construction in progress increased \$66,799. Other non-current assets decreased by \$732,321 primarily due to an increase in investments of \$673,502 offset with a decrease of \$1,305,884 for notes receivable. In 2013 a new note receivable was issued to a tenant in Dublin Gateway to assist them in paying for tenant improvements. The note was paid in full in 2014. Current liabilities decreased by \$1,653,306 primarily due to the payoff of the District's line of credit balance of \$1,300,237 and a reduction in accounts payable of \$496,162. The line of credit was used to pay for tenant improvements made in 2013. Accounts Payable decreased in 2014 due to the payment of accrued expense related to the completion of the new EMB. These decreases were primarily offset with increases in grants payable of \$77,500, security deposits of \$42,848 and unearned rent of \$24,150.

	For the Years Ended June 30,					
	2014		2013			2012
OPERATING RESULTS:		·				
Operating revenues:						
Rental income	\$	4,305,697	\$	3,763,330	\$	3,114,698
Tenant reimbursements		838,740		669,091		486,737
		5,144,437		4,432,421		3,601,435
Operating expenses:			-			
Salaries and Benefits	\$	364,595	\$	367,255	\$	355,089
Purchased services		403,067		1,063,169		991,053
Rental property operating and maintenance		1,267,583		1,142,905		989,657
Taxes		397,616		382,017		380,317
Grants to service providers		186,819		134,195		(5,970,710)
Amortization		178,171		153,547		363,863
Depreciation		3,894,976		3,518,807		3,708,066
		6,692,827	_	6,761,895		817,335
Operating profit/(loss)		(1,548,390)		(2,329,474)		2,784,100
Net nonoperating revenues (expenses)		(1,020,000)		(1,125,378)		(18,593,683)
Change in net assets		(2,568,390)		(3,454,852)		(15,809,583)
Net assets, beginning of year		49,140,135	<u></u>	52,594,988		68,404,571
Net assets, end of year	\$	46,571,745	\$	49,140,136	\$	52,594,988

For the year ending June 30, 2014, the District's operating loss was \$1,548,390 compared to an operating loss of \$2,329,474 for the year ending June 30, 2013. This was due to increased revenues of \$5,144,437 compared to the prior year's revenue of \$4,432,421. Dublin Gateways revenue increased \$502,357. Of this increase \$400,720 is a full year of rental income from two existing tenants at Dublin Gateway coupled with \$15,710 from a new tenant in 2014. Eden Medical Building's operating revenue increased by \$173,961 of which \$108,404 is from two new tenants coupled with a full year of revenue from the existing tenants which took occupancy in September 2013. San Leandro Medical Arts Building had an increase of \$35,699.

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

\_\_\_\_\_

For the year ending June 30, 2014, operating expenses decreased \$69,068 to \$6,692,827 from the prior year's expenses of \$6,761,895. Purchased services decreased \$660,102. This was primarily due to lower legal fees associated with the Sutter dispute of \$328,028, a reduction in election expense of \$180,223 and a reduction in title transfer fees of \$115,830. In 2013 the District incurred title transfer fees for the transfer of the Districts ownership of San Leandro Hospital to Sutter Health. In addition, investment fees decreased by \$10,636 and consulting services decreased by \$13,023. Rental property operating and maintenance increased \$124,678. Of this increase \$80,920 was related to the Dublin Gateway property. The primary expense contributing to the increase was higher legal fees of \$47,331 related to new building leases. Utilities increased \$21,181 and management fees increased \$14,614 due to higher tenant occupancy. San Leandro Medical Arts building contributed \$41,567 to the increase. The primary expense which contributed to the increase was \$28,944 of overall general repairs and maintenance and \$8,502 in increased utility expense. Eden Medical Building's expense remained relatively the same for 2014 compared to 2013. These decreases were offset with higher depreciation and amortization expense of \$400,793 along with higher grant expense of \$52,624 and higher property tax for Dublin Gateway of \$15,599.

Net non-operating expenses decreased by \$105,378 in 2014. The loss on the fair value of investments decreased by \$186,901 as the market continues to improve in 2014. Interest expense decreased \$134,182 as a result of a lower loan balance and lower interest rate for the refinanced Dublin Gateway loan. Other non-operating revenues decreased \$150,000 due to the receipt of a lower profit allocation from San Leandro Surgery Center compared to 2013. Interest income decreased \$65,705. This was due to a lower monthly average balance of the Districts investments in 2014 coupled with a reduction of \$11,892 in the interest earned on the tenant improvement note receivable from Webster Orthopedics as the note was paid off in April 2014.

	For the Years Ended June 30,					0,	
	2014			2013		2012	
NET POSITION:							
Net Investment in capital assets	\$	32,674,431	\$	35,754,895		\$	33,052,943
Restricted		3,336,934		3,354,019			4,603,617
Unrestricted		10,560,380		10,031,222			14,938,428
Total net position	\$	46,571,745	\$	49,140,136		\$	52,594,988

At June 30, 2014, total net position decreased by \$2,568,390. Net investment in capital assets decreased \$3,080,464 in fiscal year 2014. This was mainly due to depreciation expense offset by tenant and building improvements at SLMAB and EMB. Restricted net assets decreased by \$17,085. This was primarily due to realized losses resulting from the reallocation of restricted investments to higher interest bearing investments. Unrestricted net assets increased by \$529,158. This increase was mainly due to the cash gain for fiscal year 2014 which was offset with the investment in building and tenant improvements for SLMAB and EMB.

#### 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, 2014 and 2013, the District's investment in capital assets totaled \$77,591,798 and \$80,672,262 respectively. During 2014, the District's additions to depreciable capital assets were \$740,945 of which \$423,874 was related to tenant improvements, \$315,734 were building improvements and \$8,105 was for land improvements. The balance of construction in progress at June 30, 2014 was \$107,838 which was an increase of \$66,799 during the year.

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

\_\_\_\_\_

At June 30, 2014 the District's outstanding balance for loans payable was \$44,917,367 compared to \$44,917,367 as of June 30, 2013. At June 30, 2012 the loan was classified as short-term since the loan was due in February, 2013. The decrease of \$3,175,706 was due to principal payments on the Dublin Gateway loan of \$175,706 during fiscal year coupled with a lump sum payment of \$5,000,000 when the loan was refinanced in February 2013. These principal payments were offset with an additional \$2,000,000 added to the existing line of credit which is secured by the Eden Medical Building, San Leandro Medical Arts Building and \$3,326,397 of marketable securities. The bank loan was obtained during fiscal year 2007 as partial financing for the purchase of the DGMC property. The loan payable matured on June 1, 2010 and a temporary loan was obtained for the outstanding balance of \$48,202,398 until September 1, 2010. The loan was modified again on September 27, 2010. The loan's total commitment was reduced to \$40,500,000 which will mature October 1, 2012. A new secured line of credit was executed simultaneously for the remaining balance of \$7,702,398. The line of credit was executed to increase the bank's total security on the outstanding principal balance at September 1, 2010 of \$48,202,398. The principal of \$7,702,398 on the line of credit was secured by the San Leandro Medical Arts Building and \$3,300,000 of marketable securities. The maturity date is October 1, 2012. On June 2, 2011 a third modification was made which increased the collateral an additional \$2,000,000 and required the District to begin paying down the principal based on a percentage of specific excess cash flows from Dublin Gateway Center. A fourth modification was made on March 14, 2012 where the District is required to maintain unencumbered liquid assets of at least \$15,000,000. A fifth modification was made on September 28, 2012 which extended the maturity date of the note and line of credit from October 1, 2012 to February 1, 2013. A sixth modification was made on January 31, 2013 where the notes total commitment was reduced to \$35,214,969 and the District made a principal payment of \$5,000,000. The notes maturity date was extended to February 1, 2016 and the District was no longer required to pay down the principal based on 50% of all excess cash flow from Dublin Gateway Center. The required unencumbered liquid assets were also reduced from \$15,000,000 to \$8,000,000. An advance of \$2,000,000 was extended to the existing line of credit bringing the new principal balance to \$9,702,397. The line of credit was secured by the Eden Medical Building, San Leandro Medical Arts and marketable securities of \$3,326,397. The maturity date is February 1, 2016.

The District also has a line of credit with a lender for a maximum amount of \$6,000,000 due upon demand, bearing an interest rate of Libor plus 1.75%. The loan is secured by the District's investments that the lender has under its possession and control. The loan balance was \$0 as of June 30, 2014 and 2013, respectively.

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

On June 30, 2014, the District has three rental properties for which income and expenses are included in the fiscal year 2014-2015 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 positive cash flow and is expected to increase as rents gradually increase. Capital investments continue to be made and rents are slowly recovering to market. The warm shell of the new Eden Medical Building construction was substantially complete by March 2012. The tenant improvements were completed in late August 2012 and the first tenants occupied their suites in September 2012. The Eden Medical Building has had positive cash flow from first occupancy. In the fall of 2013, two new tenants occupied their suites on the third floor, bringing the vacancy to just below 40%. Rent from the new tenants will add about \$147,075 of rent income annually. The Dublin Gateway Building has had significant positive cash flow in the fiscal year just ended and this should increase as the full year's effect of the first floor tenant rents are accounted for in fiscal year 2015. The District's rental revenues should continue to increase as rents firm up over the entire Bay Area.

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

#### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The District's financial report is designed to provide the District's Board of Directors, management, creditors, legislative and oversight agencies, citizens and others with an overview of the District's finances and to demonstrate its accountability for funds received. For additional information about this report, please contact the District's office at 20400 Lake Chabot Road Suite 104, Castro Valley, CA 94546.

## BASIC FINANCIAL STATEMENTS

#### Statements of Net Position June 30, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and equivalents	\$ 281,187	\$ 674,937
Restricted cash and investments	3,336,184	3,353,269
Receivable - other	25,927	28,105
Accounts receivable - tenants	53,089	100,610
Interest receivable	134,080	85,927
Prepaid expense	45,624	42,155
Total current assets	3,876,091	4,285,003
Other assets:		
Investments	8,354,761	7,681,259
Deposit	750	750
Goodwill, net	390,704	429,775
Notes receivable	1,150,000	2,455,884
Prepaid loan and lease fees, net	694,901	755,769
	10,591,116	11,323,437
Capital assets:		
Nondepreciable	13,095,189	13,028,391
Depreciable	64,496,609	67,643,871
Total capital assets, net	77,591,798	80,672,262
Total assets	\$ 92,059,005	\$ 96,280,702
Liabilities and net position		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 145,535	\$ 641,697
Interest payable	93,808	95,213
Security deposits held	169,762	126,914
Unearned rent	83,288	59,138
Grants payable	77,500	_
Loan payable	-	1,300,237
Total current liabilities	569,893	2,223,199
Loan payable	44,917,367	44,917,367
Total non-current liabilities	44,917,367	44,917,367
Total liabilities	45,487,260	47,140,566
Net position		
Invested in capital assets, net of related debt	32,674,431	35,754,895
Restricted	3,336,934	3,354,019
Unrestricted	10,560,380	10,031,222
Total net position	46,571,745	49,140,136
Total liabilities and net position	\$ 92,059,005	\$ 96,280,702

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

## Statements of Revenues, Expenses and Changes in Net Position For the Years Ended June 30, 2014 and 2013

\_\_\_\_\_

	2014	2013
Operating revenues		
Rental income	\$ 4,305,697	\$ 3,763,330
Tenant reimbursements	838,740	669,091
Total operating revenues	5,144,437	4,432,421
Operating expenses		
Salaries and benefits	364,595	367,255
Purchased services	403,067	1,063,169
Rental property operating and maintenance	1,267,583	1,142,905
Taxes	397,616	382,017
Grants to service providers and community	186,819	134,195
Amortization	178,171	153,547
Depreciation	3,894,976	3,518,807
Total operating expenses	6,692,827	6,761,895
Operating loss	(1,548,390)	(2,329,474)
Nonoperating revenues (expenses):		
Interest income	322,311	388,016
Interest expense	(1,346,161)	(1,480,343)
Change in fair value of investments	(46,150)	(233,051)
Other income	50,000	200,000
Net nonoperating revenues (expenses)	(1,020,000)	(1,125,378)
Change in net position	(2,568,390)	(3,454,852)
Net position, beginning of year	49,140,135	52,594,988
Net position, end of year	\$ 46,571,745	\$ 49,140,136

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

#### Statements of Cash Flows

For the Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Cash receipts from customers	\$ 5,261,134	\$ 4,301,836
Payments to suppliers of goods and services	(2,258,350)	(2,393,571)
Payments to employees for services	(354,758)	(367,255)
Grant payments	(109,319)	(134,195)
Tax payments	(397,616)	(382,017)
Net cash provided by operating activities	2,141,091	1,024,797
Cash flows from capital and related financing activities		
Payment of loan and line of credit principal	(1,300,237)	(5,325,469)
Loan proceeds received	-	3,450,000
Interest paid	(1,347,566)	(1,480,343)
Purchase of capital assets	(814,512)	(3,045,053)
Net cash used in capital and related financing activities	(3,462,315)	(6,400,865)
Cash flows from investing activities		
Investment income received	274,159	381,608
Distribution received from San Leandro Surgery Center	50,000	300,000
Purchase of investments	(10,021,207)	(2,213,600)
Proceeds from sale of investments	9,301,553	6,779,734
Loan to Webster Orthopedics	-	(1,500,000)
Payments received on Webster Orthopedics note receivable	1,305,884	194,116
Change from restricted cash	17,085	1,249,598
Net cash provided by investing activities	927,474	5,191,456
Net decrease in cash and cash equivalents	(393,750)	(184,612)
Cash and cash equivalents, beginning of year	674,937	859,549
Cash and cash equivalents, end of year	\$ 281,187	\$ 674,937
Reconciliation of operating loss to net cash		
provided by operating activities		
Operating loss	\$ (1,548,390)	\$ (2,329,474)
Adjustments to reconcile operating loss		
to net cash provided by operating activities		
Depreciation	3,894,976	3,518,807
Amortization	178,171	153,547
Change in assets and liabilities		
Accounts receivable - tenants	47,521	(76,015)
Receivable - other	2,178	(28,105)
Prepaid expenses	(3,469)	59,239
Other assets	(78,232)	(292,991)
Accounts payable and accrued liabilities	(496,162)	79,252
Interest payable	40.040	(32,998)
Security deposits payable Unearned rent	42,848	32,040
	24,150 77,500	(58,505)
Grants payable	77,500 \$ 2,141,001	¢ 1,004,707
Net cash provided by operating activities	\$ 2,141,091	\$ 1,024,797
Supplemental disclosure of non-cash investing capital or financing activities		
Change in fair value investments	\$ (46,150)	\$ (233,051)

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

Notes to Financial Statements June 30, 2014 and 2013

,

#### 1. Organization

Eden Township Healthcare District (the "District"), formerly Eden Township Hospital District, a political subdivision of the State of California, was organized under Local Hospital District Law as set forth in the Health and Safety Code of the State of California. It is exempt from federal and state income taxes. The District operated Eden Hospital Medical Center and Laurel Grove Hospital (the "Hospitals") in Castro Valley, California, until January 14, 1998 when the District transferred substantially all of the net operating assets and operations of the Hospitals to Eden Medical Center ("EMC"), a California nonprofit public benefit corporation. The transfer occurred pursuant to the District's affiliation with Sutter Health, a California nonprofit public benefit corporation. The District is one of two corporate members of EMC and the District's five elected directors are members of EMC's eleven-member Board of Directors. Sutter Health is the other corporate member. This arrangement was terminated six months after construction began on the replacement hospital for Eden Medical Center, which was July 2009; six months later, in January 2010, the District Board members resigned from the Eden Medical Center Board per the terms in the 2008 Amended Lease and Agreement between Sutter Health and the District.

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

In May 2007, the District, in partnership with Dublin Gateway, LLC, acquired Triad Dublin Gateway, LP, (TDG LP) for the purpose of purchasing, owning, operating and developing the Dublin Gateway Medical Center (DGMC). Since TDG LP is wholly owned and controlled by the District through its ownership of Dublin Gateway, LLC, the operations of TDG LP are included within the District.

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 13.

Notes to Financial Statements June 30, 2014 and 2013

\_\_\_\_\_\_

#### 1. Organization (continued)

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

## 2. Summary of Significant Accounting Policies

#### Basis of accounting

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

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

#### Cash and cash equivalents

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

#### Restricted cash and investments

The restricted cash and investments consist of balances required to be held separately by the District's debtor. The balance at June 30, 2014 and 2013 includes investments in fixed income securities which are stated at fair value of \$3,329,067 and \$1,900,275, respectively, as well as cash and cash equivalents of \$7,117 and \$1,452,994, respectively.

Notes to Financial Statements June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

#### **Investments**

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

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

#### Capital assets, net

Capital assets are stated at cost when purchased or constructed, or, for donated property, at the asset's estimated fair value at the time the donated property is received. Depreciation is provided using the straight-line method over the assets' estimated useful lives ranging from 4 to 40 years. Depreciation for tenant improvements is provided using the straight-line method over the shorter of the assets estimated useful life or the lease term, generally 10 years or less. Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered, the District, using its best estimates and projections, reviews for impairment the carrying value of long-lived identifiable assets to be held and used in the future. Any impairment losses identified are recognized when determined. Recoverability of assets is measured by comparison of the carrying amount of the asset to the net undiscounted future cash flows expected to be generated from the asset. If the future undiscounted cash flows are not sufficient to recover the carrying value of the assets, the assets carrying value is adjusted to fair value.

#### Use of estimates

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

Notes to Financial Statements June 30, 2014 and 2013

3. Cash and Investments - Custodial Credit Risk

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

At June 30, 2014 and 2013, the District had cash and equivalents on deposit at banks of \$367,181 and \$2,005,654, respectively, that were covered by depository insurance or collateralized by the pledging financial institution.

At June 30, 2014 and 2013, the balances on deposit at financial institutions in excess of federal depository insurance limits of \$250,000 totaled \$1,000,813 and \$238,642, respectively and were held in uncollateralized accounts.

#### 4. Investments

At June 30, 2014 and 2013, investments consisted of the following at fair value, including \$3,329,067 and \$1,900,275, respectively, that are classified as restricted cash and investments as required by the District's debtor:

	<u>2014</u>	<u>2013</u>
US Treasury notes	\$ 3,584,403	\$4,727,746
US government agency securities	2,077,304	1,891,732
Corporate bonds	3,789,677	2,962,056
Fixed income	1,004,240	
Total investments	<u>\$10,455,624</u>	\$9,581,534

Notes to Financial Statements June 30, 2014 and 2013

### 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.

		Maximum	Maximum
	Maximum	Percentage	Investment
Authorized Investment Type	<b>Maturity</b>	of Portfolio	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

#### 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, 2014 and 2013, scheduled maturities of fixed income securities consisted of the following:

	<u>2014</u>	<u>2013</u>
Maturing in		
Less than 1 year	\$ 2,004,509	\$2,856,097
1 year to 5 years	8,040,929	6,725,437
5 years to 10 years	410,186	
Total	\$10,455,624	\$9,581,534

Notes to Financial Statements June 30, 2014 and 2013

\_\_\_\_\_

#### 4. Investments (continued)

#### Credit risk

The District's credit rating risk is governed by Section 53601 of the California Government Code, which, among others, limits investments in money market mutual funds to those funds with the highest ranking by at least one of the national rating agencies and investments in corporate bonds are limited to those with a minimum ranking of A by at least one national rating agencies. The District did not hold any investments at June 30, 2014 and 2013 that had ratings of less than A by national rating agencies. There are no investment limits on the securities of the U.S. Treasury as these investments are backed by the full faith and credit of the United States government.

The following is a summary of the credit quality distribution for securities with credit exposure as rated by Moody's Investor Service at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
AAA	\$ 3,839,921	\$5,021,710
AA1-AA3	3,379,914	2,436,489
A1 -A3	2,231,548	2,123,335
Unrated	1,004,241	
Total	<u>\$10,455,624</u>	\$9,581,534

#### Concentration of credit risk

The District diversifies its portfolio as required by the California Government Code. At June 30, 2014 and 2013, more than 5 percent of the District's investments are invested in the following.

	<u>2014</u>	<u>2013</u>
Federal National Mortgage Association Bonds	8.9%	10%
Federal Home Loan Banks Bonds	8.2%	_

## Notes to Financial Statements June 30, 2014 and 2013

## 5. Capital Assets

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

	Balance	A 1.157	Tr. C	D: 1	Balance
Capital assets not being depreciated	July 1, 2013	Additions	<u>Transfers</u>	Disposais	June 30, 2014
Land	\$13,005,082	\$ -	\$ -	\$( - )	\$13,005,082
Construction in progress	23,309	107,838	<u>(41,040</u> )		90,107
Total capital lease assets not being depreciated	13,028,391	107,838	(41,040)	_()	13,095,189
Capital assets being depreciated	16,000	0.105		( )	24 105
Land improvements Building	16,000 76,746,935	8,105	(767,061)	( - )	24,105 75,979,874
Building improvements	3,620,605	141,894	173,840	-	3,936,339
Tenant improvements	5,056,909	396,665	794,270	_	6,247,844
Equipment	64,801			<u>(6,764</u> )	58,037
Total capital assets being depreciated	85,505,250	546,664	201,049	(6,764)	86,246,199
Less: Accumulated depreciation	(17,861,379)	(3,894,975)		6,764	(21,749,590)
Total capital assets being					
depreciated, net	67,643,871	(3,348,311)	201,049		64,496,609
Total capital assets, net	\$80,672,262	<u>\$(3,240,473</u> )	<u>\$160,009</u>	<u>\$ -</u>	<u>\$77,591,798</u>
Changes in capital assets consist of the following for the year ended June 30, 2013:					
	Balance July 1, 2012	Additions	<u>Transfers</u>	<u>Disposals</u>	Balance June 30, 2013
Capital assets not being depreciated	July 1, 2012			-	June 30, 2013
Land	July 1, 2012 \$13,005,082	\$ -	\$ -	Disposals \$ ( - )	June 30, 2013 \$13,005,082
Land Construction in progress	July 1, 2012	\$ -		-	June 30, 2013
Land	July 1, 2012 \$13,005,082	\$ - 25,921	\$ -	-	June 30, 2013 \$13,005,082
Land Construction in progress  Total capital lease assets not being depreciated	July 1, 2012 \$13,005,082 	\$ - 25,921	\$ - (6,897,262)	\$ ( - )	June 30, 2013 \$13,005,082 23,309
Land Construction in progress  Total capital lease assets not being depreciated  Capital assets being depreciated	July 1, 2012 \$13,005,082 6,894,650 19,899,732	\$ - 25,921	\$ - (6,897,262)	\$ ( - )	June 30, 2013 \$13,005,082 23,309
Land Construction in progress  Total capital lease assets not being depreciated	July 1, 2012 \$13,005,082 	\$ - 25,921 25,921	\$ - (6,897,262)	\$ ( - ) 	June 30, 2013 \$13,005,082 23,309 13,028,391
Land Construction in progress  Total capital lease assets not being depreciated  Capital assets being depreciated Land improvements	July 1, 2012 \$13,005,082 6,894,650 19,899,732 16,000 70,280,991 2,551,006	\$ - 25,921 25,921 573,415 806,864	\$ - (6,897,262) (6,897,262)	\$ ( - ) 	June 30, 2013 \$13,005,082 23,309 13,028,391 16,000 76,746,935 3,620,606
Land Construction in progress  Total capital lease assets not being depreciated  Capital assets being depreciated Land improvements Building Building improvements Tenant improvements	July 1, 2012 \$13,005,082 6,894,650 19,899,732 16,000 70,280,991 2,551,006 3,401,334	\$ - 25,921 25,921 - 573,415 806,864 1,610,866	\$ - (6,897,262) (6,897,262) - 6,589,816	\$ ( - ) 	June 30, 2013 \$13,005,082 23,309 13,028,391 16,000 76,746,935 3,620,606 5,056,910
Land Construction in progress  Total capital lease assets not being depreciated  Capital assets being depreciated Land improvements Building Building improvements	July 1, 2012 \$13,005,082 6,894,650 19,899,732 16,000 70,280,991 2,551,006	\$ - 25,921 25,921 573,415 806,864	\$ - (6,897,262) (6,897,262) - 6,589,816 262,736	\$ ( - ) 	June 30, 2013 \$13,005,082 23,309 13,028,391 16,000 76,746,935 3,620,606
Land Construction in progress  Total capital lease assets not being depreciated  Capital assets being depreciated Land improvements Building Building improvements Tenant improvements	July 1, 2012 \$13,005,082 6,894,650 19,899,732 16,000 70,280,991 2,551,006 3,401,334 62,621	\$ - 25,921 25,921 - 573,415 806,864 1,610,866	\$ - (6,897,262) (6,897,262) - 6,589,816 262,736	\$ ( - ) 	June 30, 2013 \$13,005,082 23,309 13,028,391 16,000 76,746,935 3,620,606 5,056,910
Land Construction in progress  Total capital lease assets not being depreciated  Capital assets being depreciated Land improvements Building Building improvements Tenant improvements Equipment	July 1, 2012 \$13,005,082 6,894,650 19,899,732 16,000 70,280,991 2,551,006 3,401,334 62,621	\$ - 25,921 25,921 573,415 806,864 1,610,866 27,986	\$ - (6,897,262) (6,897,262) - 6,589,816 262,736 44,710 - - 6,897,262	\$ ( - ) ( - ) (697,287) - (25,807)	June 30, 2013 \$13,005,082 23,309 13,028,391 16,000 76,746,935 3,620,606 5,056,910 64,800
Land Construction in progress  Total capital lease assets not being depreciated  Capital assets being depreciated Land improvements Building Building improvements Tenant improvements Equipment  Total capital assets being depreciated  Less: Accumulated depreciation Total capital assets being	July 1, 2012 \$13,005,082 6,894,650 19,899,732 16,000 70,280,991 2,551,006 3,401,334 62,621 76,311,952 (15,065,668)	\$ - 25,921 25,921 573,415 806,864 1,610,866 27,986 3,019,131 (3,518,806)	\$ - (6,897,262) (6,897,262) - 6,589,816 262,736 44,710 - 6,897,262	\$ ( - ) ( - ) (697,287) - (25,807) (723,094) 723,094	June 30, 2013 \$13,005,082 23,309 13,028,391 16,000 76,746,935 3,620,606 5,056,910 64,800 85,505,251 (17,861,380)
Land Construction in progress  Total capital lease assets not being depreciated  Capital assets being depreciated Land improvements Building Building improvements Tenant improvements Equipment  Total capital assets being depreciated  Less: Accumulated depreciation	July 1, 2012 \$13,005,082 6,894,650 19,899,732 16,000 70,280,991 2,551,006 3,401,334 62,621 76,311,952	\$ - 25,921 25,921 573,415 806,864 1,610,866 27,986 3,019,131 (3,518,806)	\$ - (6,897,262) (6,897,262) - 6,589,816 262,736 44,710 - - 6,897,262	\$ ( - ) ( - ) (697,287) - (25,807) (723,094)	June 30, 2013 \$13,005,082 23,309 13,028,391 16,000 76,746,935 3,620,606 5,056,910 64,800 85,505,251 (17,861,380) 67,643,871
Land Construction in progress  Total capital lease assets not being depreciated  Capital assets being depreciated Land improvements Building Building improvements Tenant improvements Equipment  Total capital assets being depreciated  Less: Accumulated depreciation Total capital assets being	July 1, 2012 \$13,005,082 6,894,650 19,899,732 16,000 70,280,991 2,551,006 3,401,334 62,621 76,311,952 (15,065,668)	\$ - 25,921 25,921 573,415 806,864 1,610,866 27,986 3,019,131 (3,518,806)	\$ - (6,897,262) (6,897,262) - 6,589,816 262,736 44,710 - - 6,897,262 - - 6,897,262	\$ ( - )	June 30, 2013 \$13,005,082 23,309 13,028,391 16,000 76,746,935 3,620,606 5,056,910 64,800 85,505,251 (17,861,380)

Notes to Financial Statements June 30, 2014 and 2013

,

#### 6. Note Receivable

On August 1, 2011 the District made a \$3,000,000 loan to St. Rose Hospital ("SRH") to be used for operations with an original maturity date of November 1, 2011. In December 2011 the District established a revised loan payment plan that called for the current principal balance of \$2,350,000 to be repaid by March 9, 2012. SRH repaid a total of \$1,200,000 under this repayment plan leaving a loan balance of \$1,150,000 as of June 30, 2012. On August 22, 2012 the District informed SRH in writing that principal and interest payments on the loan have been suspended for one year, and received acknowledgment from SRH on this new agreement. On August 1, 2013 SRH requested the note be forgiven by the District. The District has not made a decision on this request as of the date of this audit report. As of August 2014, the District and St. Rose Hospital have been in discussions about ways that this debt could be discharged.

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

On September 11, 2012 the District lent an aggregate amount of \$1,500,000 to Webster Orthopaedic Medical Group, a Professional Corporation, dba Webster Orthopaedics to be used for tenant improvements. The loan bears interest of 6.75% with principal and interest payments to be made on the first day of each month over a five year period. The loan is secured by the personal guaranties executed by each of the borrower's shareholders. The loan was paid off in April 2014.

#### 7. Goodwill

Goodwill relates to the District's purchase of San Leandro Hospital (SLH) in July 2004. As a result of the purchase of SLH by Sutter Health, the majority of the goodwill associated with the original acquisition of SLH was written off as of June 30, 2012. The remaining goodwill as of June 30, 2014 and 2013 is attributed to the District's interest in the SurgiCenter and in the San Leandro Medical Arts Building. Goodwill is being amortized over its estimated useful life of 20 years which is the term of the agreement between Eden Medical Center and the District for the operation of SLH.

	<u>2014</u>	<u>2013</u>
Goodwill	\$781,411	\$781,411
Less accumulated amortization	<u>(390,706</u> )	<u>(351,636</u> )
Goodwill, net	<u>\$390,705</u>	<u>\$429,775</u>

Amortization expense related to goodwill was \$39,070 for the years ended June 30, 2014 and 2013, respectively.

Notes to Financial Statements June 30, 2014 and 2013

,

#### 8. Loan Payable

At June 30, 2012 and 2011, the District's long-term liabilities consisted of a variable rate note and a line of credit secured on the Dublin Gateway Medical Center and guaranteed by the District. The note with US Bank was originally obtained on May 17, 2007 for a maximum amount of \$54,000,000.

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

The District financed total interest from the holdback reserves of \$1,111,991 and funded tenant improvements of \$1,990,407 through the date of the first loan modification. The terms of the note were modified on May 25, 2010 causing the remaining balance of \$5,797,602 available as holdback reserves to be cancelled which reduced the maximum amount available under the loan to \$48,202,397. The maturity date of the loan was extended from June 1, 2010 to September 1, 2010 under the modification. A second modification was executed on September 27, 2010. The note's total commitment was reduced to \$40,500,000 and the maturity date was extended to October 1, 2012. A new secured line of credit was executed simultaneously for the remaining balance of \$7,702,398. The line of credit was executed to increase the bank's total security on the outstanding principal balance at September 1, 2010 of \$48,202,398. The principal of \$7,702,398 outstanding on the line of credit is secured by the San Leandro Medical Arts Building and \$3,300,000 of marketable securities. The maturity date of the line of credit is October 1, 2012. The variable interest rates on the note and the line of credit were 3.24% and 3.00%, respectively, as of June 30, 2012.

A third modification was executed on June 2, 2011. Starting July 15, 2011, on a monthly basis, the District is required to pay to the bank 50% of all excess cash flow for the prior month's financial results for the Dublin Gateway operations. These funds are to pay down the principal balance of the loan. Any remaining unpaid principal balance becomes due on October 1, 2012. Additional collateral funds of \$2,000,000 were also required which may be reduced by amounts incurred for tenant improvements. At June 30, 2012, the balance of cash and investments required to be maintained by the bank as collateral is \$4,602,867.

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

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

Notes to Financial Statements June 30, 2014 and 2013

#### 8. Loan Payable (continued)

A sixth modification was executed on January 31, 2013. The note's total commitment was reduced to \$35,214,969 and the District made a principal payment of \$5,000,000. The maturity date of the note was extended to February 1, 2016 and the District was no longer required to pay US Bank 50% of all excess cash flow for the prior month's financial results of the Dublin Gateway operations. The required unencumbered liquid assets were also reduced from \$15,000,000 to \$8,000,000. With regards to the line of credit an additional advance of \$2,000,000 was added to the outstanding principal balance of \$7,702,398. The new principal balance is \$9,702,397 and allocated amongst the San Leandro Medical Arts Building (\$2,806,000), the Eden Medical Building (\$3,570,000), and marketable securities (\$3,326,397). The net principal reduction by the District in this transaction is \$3,000,000, paid in cash. The maturity date of the line of credit is February 1, 2016, concurrent with the note mentioned above. The variable interest rates on the note and the line of credit were 2.90% (LIBOR plus 2.75 points) and 2.94% (LIBOR plus 2.75 points), respectively as of June 30, 2014.

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

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

Changes in the District's long-term liabilities for the fiscal year ended June 30, 2013:

					Amounts Due
					Within
	<u>July 1, 2012</u>	<u>Additions</u>	<u>Paydowns</u>	June 30, 2013	One Year
Bank loan	<u>\$48,093,073</u>	<u>\$2,000,000</u>	<u>\$(5,175,706)</u>	<u>\$44,917,367</u>	<u>\$</u>

Changes in the District's line of credit for the fiscal year ended June 30, 2014:

					Amounts Due Within
	July 1, 2013	Additions	<u>Paydowns</u>	June 30, 2013	One Year
Bank loan	\$1,300,237	<u>\$ -</u>	<u>\$(1,300,237)</u>	<u>\$ -</u>	\$ -

Notes to Financial Statements June 30, 2014 and 2013

,

#### 8. Loan Payable (continued)

Changes in the District's line of credit for the fiscal year ended June 30, 2013:

					Amounts Due
					Within
	<u>July 1, 2012</u>	<u>Additions</u>	<u>Paydowns</u>	June 30, 2013	One Year
Bank loan	<u>\$ -</u>	<u>\$1,450,000</u>	<u>\$(149,763</u> )	<u>\$1,300,237</u>	<u>\$1,300,237</u>

Scheduled net debt service payments including interest:

	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2015	\$1,302,604	\$ -	\$ 1,302,604
2016	<u>759,852</u>	44,917,367	45,677,219
	<u>\$2,062,456</u>	<u>\$44,917,367</u>	<u>\$46,979,823</u>

#### 9. Agreements with Related Organizations

In March 2008, the District entered into an amended and restated agreement with Sutter Health to construct a medical center on the site of the Eden Medical Center campus to replace the existing hospital building which will not meet the seismic safety requirements of State Senate Bill 1953. The replacement hospital for Eden Medical Center in Castro Valley opened for business and accepted the first patients in December 2012. The removal of the old hospital building and the remaining parking and landscaping was completed in the fall of 2013. This completes the agreement to build the replacement hospital.

#### 10. 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.

Notes to Financial Statements June 30, 2014 and 2013

#### 10. Net Assets (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. As of June 30, 2014 and 2013, the District had \$3,336,934 and \$3,354,019 in restricted net assets, respectively. The restriction is related to required collateral to be held for the Districts 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.

#### 11. Medical Office Buildings - Future Rental Income

The future minimum rental income from operating leases as of June 30, 2014 is as follows:

Fiscal Year Ending June 30,	Eden Medical Building	San Leandro Medical Arts	Dublin <u>Gateway</u>	<u>Total</u>
2015	\$ 341,737	\$ 763,645	\$ 3,513,434	\$ 4,618,816
2016	349,101	547,502	3,557,086	4,453,689
2017	356,627	479,935	1,968,947	2,805,509
2018	319,673	352,146	1,253,790	1,925,609
2019	263,055	203,436	1,046,328	1,512,819
Thereafter	688,283	702,094	5,435,745	6,826,122
Total minimum lease rentals	\$2,318,476	\$3,048,758	\$16,775,330	\$22,142,564

#### 12. Pension Plan

The District maintains a 457 defined contribution plan for all employees which is administered by CalPERS. Participants receive an employer match contribution of 100% of the employee contribution, up to 5% of the employee's annual salary. Total pension plan expense was \$13,938 and \$11,209 for the years ended June 30, 2014 and 2013, respectively.

Notes to Financial Statements June 30, 2014 and 2013

\_\_\_\_\_

#### 13. Commitments

#### **Litigation**

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

If a purchase pursuant to the option is consummated, the purchase price would be equal to the net book value of the SLH recorded by the District, less total cash losses incurred by EMC during period of operation, and less total capital expenditures. The SLH has operated at a loss during the lease agreement which has been funded by EMC (Sutter Health). The proposed purchase price by EMC (Sutter Health) is \$0. The Trial Court ruled in favor of Sutter in the 2009 Cross Compliant filed by the District in November 2010. The District filed an appeal on March 9, 2011 and the appeal was decided in favor of Sutter Health in December of 2011. An appeal for review was filed with the California Supreme Court in February 2012. The California Supreme Court refused to entertain an appeal on April 11, 2012. Therefore, the value of San Leandro Hospital and the related goodwill were written off in April 2012.

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

The District and Sutter are discussing a possible settlement which will 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 have not resulted in a definitive agreement. Due to the continued uncertainty of a final settlement the results of the damages awarded to Sutter Health and any subsequent settlement have not been reflected in these statements.

### 14. Subsequent Events

The District has evaluated subsequent events through September 25, 2014, the date the financial statements were available to be issued. No other subsequent events have occurred that would have a material impact on the presentation of the District's financial statements.

## **SUPPLEMENTAL INFORMATION**

# EDEN TOWNSHIP HEALTHCARE DISTRICT Combining Statement of Net Position June 30, 2014 (With Comparative Totals as of June 30, 2013)

	District Office	Dublin Gateway LP	San Leandro Medical Arts Building	Eden Medical Building	Eden Township Healthcare District Total	2013
Assets		•				
Current assets:						
Cash and equivalents	\$ 62,436	\$ 105,585	\$ 68,006	\$ 45,160	\$ 281,187	\$ 674,937
Restricted cash and investments	3,336,184	-	-	-	3,336,184	3,353,269
Receivable - other	25,927	-	-	-	25,927	28,105
Accounts receivable - tenants	-	21,440	3,865	27,784	53,089	100,610
Interest receivable	134,079	-	-	-	134,079	85,927
Prepaid expense	12,334	27,549	2,725	3,017	45,624	42,155
Total current assets	3,570,960	154,574	74,595	75,961	3,876,091	4,285,003
Other assets:						
Investments	8,354,761	-	-	-	8,354,761	7,681,259
Deposit	-	-	750	-	750	750
Goodwill, net	390,704	-	-	-	390,704	429,775
Notes receivable	1,150,000	-	-	-	1,150,000	2,455,884
Other	-	623,015	-	71,886	694,901	755,769
Total other assets	9,895,465	623,015	750	71,886	10,591,116	11,323,437
Capital assets:						
Nondepreciable	_	11,051,583	15,972	2,027,634	13,095,189	13,028,391
Depreciable	17,724	54,701,168	2,299,088	7,478,628	64,496,608	67,643,871
Total capital assets, net	17,724	65,752,751	2,315,060	9,506,262	77,591,798	80,672,262
Total assets	\$ 13,484,150	\$ 66,530,340	\$ 2,390,406	\$ 9,654,109	\$ 92,059,005	\$ 96,280,702
Liabilities and net position						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 91,346	\$ 12,302	\$ 24,622	\$ 17,265	\$ 145,535	\$ 641,697
Taxes payable	-	-	-	-	-	-
Interest payable	-	85,132	-	8,676	93,808	95,213
Security deposits held	-	129,145	6,656	33,961	169,762	126,914
Unearned rent	-	51,873	31,415	-	83,288	59,138
Grants payable	77,500	-	-	-	77,500	-
Loan payable						1,300,237
Total current liabilities	168,846	278,452	62,693	59,902	569,893	2,223,199
Loan payable	3,326,397	35,214,970	2,806,000	3,570,000	44,917,367	44,917,367
Total non-current liabilities	3,326,397	35,214,970	2,806,000	3,570,000	44,917,367	44,917,367
Total liabilities	3,495,243	35,493,422	2,868,693	3,629,902	45,487,259	47,140,566
Not nosition						
Net position  Invested in capital assets, net of related debt	(3,308,673)	30,537,781	(490,940)	5,936,262	32,674,431	35,754,895
Restricted	3,336,184	30,337,781	(490,940)	3,930,202	3,336,934	3,354,019
Unrestricted	9,961,396	499,137	11,903	- 87,944	10,560,380	10,031,222
Total net position	9,988,907	31,036,918	(478,287)	6,024,207	46,571,745	49,140,136
<u>-</u>						
Total liabilities and net position	\$ 13,484,150	\$ 66,530,340	\$ 2,390,406	\$ 9,654,109	\$ 92,059,005	\$ 96,280,702

Combining Statement of Revenues, Expenses and Changes in Net Position For the Year Ended June 30, 2014

(With Comparative Totals as of June 30, 2013)

	District Office	Dublin Gateway LP	San Leandro Medical Arts Building	Eden Medical Building	Eden Township Healthcare District Total	2013
Operating revenues						
Rental income Tenant reimbursements	\$ - -	\$ 3,175,332 760,106	\$ 825,196 	\$ 305,170 78,634	\$ 4,305,697 838,740	\$ 3,763,330 669,091
Total operating revenues		3,935,438	825,196	383,804	5,144,437	4,432,421
Operating expenses						
Salaries and benefits	364,595	-	-	-	364,595	367,255
Purchased services	386,987	14,929	-	1,151	403,067	1,063,169
Rental property operating and maintenance	-	638,362	425,106	204,114	1,267,583	1,142,905
Taxes	-	397,616	-	-	397,616	382,017
Grants to service providers and community	186,819	-	-	-	186,819	134,195
Amortization	39,070	128,117	-	10,984	178,171	153,547
Depreciation	6,098	2,911,816	297,846	679,217	3,894,976	3,518,807
Total operating expenses	983,569	4,090,840	722,952	895,466	6,692,827	6,761,895
Operating income (loss)	(983,569)	(155,402)	102,244	(511,662)	(1,548,390)	(2,329,474)
Nonoperating revenues (expenses):						
Interest income	320,345	293	-	1,673	322,311	388,016
Interest expense	(114,772)	(1,041,883)	(83,249)	(106,257)	(1,346,161)	(1,480,343)
Change in fair value of investments	(46,150)	-	-	-	(46,150)	(233,051)
Other gain/(loss)	50,000	<u>-</u>	<u> </u>		50,000	200,000
Net nonoperating revenues (expenses)	209,423	(1,041,590)	(83,249)	(104,585)	(1,020,000)	(1,125,378)
Net gain/(loss) before transfers	(774,146)	(1,196,992)	18,995	(616,247)	(2,568,390)	(3,454,852)
Transfers	1,511,605	(2,067,701)	(64,459)	620,555	-	-
Change in net position Net position, beginning of year	737,459 9,251,448	(3,264,692) 34,301,611	(45,464) (432,823)	4,308 6,019,899	(2,568,390) 49,140,135	(3,454,852) 52,594,988
rect position, beginning of year	9,231,448	34,301,011	(432,823)	0,019,699	49,140,133	34,374,788
Net position, end of year	\$ 9,988,907	\$ 31,036,918	\$ (478,287)	\$ 6,024,207	\$ 46,571,745	\$ 49,140,136