

Report of Independent Auditors  
and Financial Statements

EDEN TOWNSHIP HEALTHCARE DISTRICT  
dba EDEN HEALTH DISTRICT

June 30, 2019 & 2018

JWT & Associates, LLP  
Advisory Assurance Tax

# EDEN TOWNSHIP HEALTHCARE DISTRICT

## Report of Independent Auditors and Financial Statements

Report of Independent Auditors..... 1-2

Management's Discussion and Analysis ..... 3-9

### Financial Statements

Consolidated Statements of Net Position ..... 11

Consolidated Statements of Revenues, Expenses, and Changes in Net Position ..... 12

Consolidated Statements of Cash Flows..... 13-14

Notes to Consolidated Financial Statements ..... 15-32

### Supplemental Information

Combining Statement of Net Position ..... 33

Combining Statement of Revenues, Expenses, and Changes in Net Position..... 34

# **JWT & Associates, LLP**

## **Advisory Assurance Tax**

1111 East Herndon, Suite 211, Fresno, California 93720  
Voice: (559) 431-7708 Fax: (559) 431-7685

### *Report of Independent Auditors*

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Eden Township Healthcare District dba Eden Health District (the District) as of June 30, 2019 and 2018, which comprise the statement of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Controller General of the United States and in accordance with the State Controller's Minimum Audit Requirements for Special Districts. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Eden Township Healthcare District dba Eden Health District at June 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information on pages 33 and 34 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the U.S. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the 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 financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing 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.

***JWT & Associates, LLP***

Fresno, California  
October 16, 2019

## Management's Discussion and Analysis

# Eden Township Healthcare District dba Eden Health District

## Management's Discussion and Analysis

June 30, 2019 and 2018

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, 2019 and 2018.

### Introduction to Basic Financial Statements

The annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This standard is applicable to the District because it is a political subdivision of the State of California. The financial statements include: the statements of net position, the statements of revenues, expenses and changes in net position and the statements of cash flows. These statements are supported in the annual report by the notes to the financial statements and this section. All sections should be considered together to obtain a complete understanding of the financial picture of the District.

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

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

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

### FINANCIAL OVERVIEW

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

	As of June 30,		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Assets</b>			
Current assets	\$ 2,309,673	\$ 1,172,660	\$ 2,783,543
Investments	6,214,240	4,391,683	6,868,442
Capital assets, net of accumulated depreciation	37,183,469	41,052,628	42,986,081
Other assets	870,918	1,043,523	1,116,037
Total assets	<u>\$ 46,578,300</u>	<u>\$ 47,660,496</u>	<u>\$ 53,754,103</u>

Eden Township Healthcare District  
dba Eden Health District

Management's Discussion and Analysis

June 30, 2019 and 2018

	As of June 30,		
	2019	2018	2017
<b>Liabilities and net position</b>			
Current liabilities			
Current portion of loan payable	\$ 510,931	\$ 495,438	\$ 479,361
Current portion of settlement payable	2,171,221	2,163,662	2,163,662
Other current liabilities	675,235	577,979	2,273,626
Total current liabilities	3,357,387	3,237,079	4,916,649
Loan payable, net of current portion	11,626,793	12,137,690	12,633,157
Settlement payable, net of current portion	8,684,881	10,863,662	13,027,323
Total liabilities	23,669,063	26,238,431	30,577,129
Net position	22,909,235	21,422,065	23,176,973
Total liabilities and net position	<u>\$ 46,578,300</u>	<u>\$ 47,660,496</u>	<u>\$ 53,754,103</u>

Net position at June 30, 2019, increased to \$22,909,235 from \$21,422,065 in 2018. The change was primarily attributable to an increase in the District's cash and investments by \$3,125,400, a decrease in the settlement payable to Sutter Health by \$2,171,221, and a decrease in the Dublin building loan by \$495,404. These increases were offset with the removal of the net book value of the San Leandro Medical Arts building (SLMAB) of \$1,876,836, depreciation and amortization expense of \$2,295,519, and a reduction in receivables by \$208,562.

On March 22, 2019 the SLMAB was sold for \$5,300,000. At the time of the sale the net book value of the building and its improvements were \$1,876,836. Upon the recording of the sales transaction, the net book value along with unamortized lease commissions of \$43,507, the remaining goodwill of \$63,480 and tenant security deposits of \$47,934 were removed from the Districts books. The sale resulted in a net profit of \$3,046,044 and was the main reason for the increase in cash and investments.

Current assets increased by \$1,137,010. Of this increase, \$1,302,843 was an increase in cash. Cash was higher in FY19 due to the transfer of funds from investments to pay for the the Sutter Health damages award due on June 30, 2019. Prepaid expenses were also higher in FY19 due to the payment of \$32,159 for D&O insurance for FY20. These increases were offset with a reduction in accounts receivable of \$208,562. The reduction was mainly due to the payment of common area maintenance reimbursements for property taxes incurred at the Dublin Gateway Medical Center (DGMC) in FY18.

Eden Township Healthcare District  
dba Eden Health District

Management's Discussion and Analysis

June 30, 2019 and 2018

Capital assets decreased \$3,869,159. The decrease was due to depreciation expense of \$2,127,323 and the write off of the net book value of the San Leandro Medical Arts building (SLMAB) of \$1,876,836. These decreases were offset with new investments in tenant improvements of \$135,000 for the San Leandro Medical Arts building (SLMAB) before the building was sold in March 2019.

Other current liabilities increased by \$97,256. Of this amount \$171,686 was attributable to a refund of common area maintenance (CAM) reimbursements received from the tenants at the Dublin Gateway Medical Center (DGMC). CAM expenses billed to the tenants are estimated each fiscal year and reconciled at the end of the fiscal year. For FY19 expenses were primarily overestimated for HVAC repairs, utility expenses as well as overall general repairs. This increase was offset with a decrease in the outstanding liabilities as of FY18 for the San Leandro Medical Arts building (SLMAB) in the amount of \$67,532. The reduction of \$2,171,221 in the settlement payable to Sutter Health was due to the 5th payment of 10 installments made to Sutter Health per the damages awarded settlement. The DGMC building loan was lower by \$495,404 due to principal payments made in FY19.

Eden Township Healthcare District  
dba Eden Health District

Management's Discussion and Analysis

June 30, 2019 and 2018

**Operating Results**

	For the Year Ended June 30,		
	2019	2018	2017
<b>Operating revenues</b>			
Rental income	\$ 3,531,873	\$ 3,528,266	\$ 3,550,545
Tenant reimbursements	1,669,307	1,621,964	1,709,054
Total operating income	5,201,180	5,150,230	5,259,599
<b>Operating expenses</b>			
Salaries and benefits	430,201	404,398	392,173
Consulting and community education	67,970	68,368	78,273
Audit fees	20,900	25,102	37,171
Public relations	2,847	9,700	22,656
Legal fees	30,479	29,830	114,222
Insurance	62,029	69,036	73,266
Purchased services	735,344	314,358	268,118
Rental property operating and maintenance	1,877,668	2,047,405	2,066,307
Taxes	234,590	256,938	134,178
Grants to service providers and community	534,200	614,950	534,450
Depreciation & amortization	2,295,519	2,477,878	2,354,286
Total operating expenses	6,291,747	6,317,963	6,075,100
Operating income (loss)	(1,090,567)	(1,167,733)	(815,501)
Net nonoperating revenues (expenses)	2,577,737	(587,175)	(2,456,231)
Increase (decrease) in net position	\$ 1,487,170	\$ (1,754,908)	\$ (3,271,732)

Total operating income increased \$50,950 to \$5,201,180 from \$5,150,230 and total operating expenses decreased \$26,216 to \$6,291,747 from \$6,317,963. The result was a decrease in net operating loss by \$77,165 for the year ending June 30, 2019. Rental income increased \$3,606 in FY19. Of the increase, \$176,172 was from the DGMC, and \$42,858 was from the EMB. These increases were offset with a deduction in revenue of \$215,424 for the SLMAB which was the result of the building sale in March 2019. Of the increased revenue at DGMC, \$107,257 was due to a new lease for space that was vacated in FY18. The remaining \$68,915 was from annual increases for existing leases. At the end of FY19 DGMC is 100% occupied. Of the increase at the EMB, \$30,418 was due to a full year of rent received from a tenant who took occupancy mid-year FY18 and \$12,440 was from annual increases for existing leases.

# Eden Township Healthcare District dba Eden Health District

## Management's Discussion and Analysis

June 30, 2019 and 2018

Operating expenses decreased \$26,218 and was primarily attributable to lower depreciation expense of \$189,594, lower operating and maintenance expense of \$169,737 and a decrease in grants to service providers of \$80,750. These decreases were offset with an increase in purchased services of \$420,986. The decrease in depreciation expense was primarily due to the transfer of the San Leandro Medical Arts building (SLMAB) fixed assets to the new building owner in March 2019. As a result depreciation expense was \$122,095 lower in FY19 compared to FY18. Grants to service providers were higher in FY18 due to a one-time special grant awarded to Davis Streets Primary Care Clinic for \$75,000. The grant was provide to help alleviate the gap between services provided and the collection of accounts receivable.

Purchased services increased \$420,986. The increase was primarily attributable to the election cost incurred for three (3) new Directors for the District. The general election was held on November 6, 2018 and the cost was \$655,939. Election expense is determined by the number of registered voters within the District boundaries. At the time of the election there were 187,411 registered voters and the cost per voter was \$3.50. This cost was offset with a reduction of \$200,000 for development extension fees incurred in FY18. In July 2007 the District entered into a development agreement with the City of Dublin for the potential construction on the undeveloped portion of the DGMC property. The agreement was for a medical office building of approximately 58,000 square feet or a 100-bed hospital. The District had been working with a developer who had been unable to uncover any interest in the medical office or a hospital. The agreement had been written in a way that restricted the District to only those projects and to maintain the agreement the District would have been obligated to pay \$200,000 per year to keep the agreement in place. As a result the District Board voted to cancel the development agreement with the city.

Rental property operating and maintenance decreased \$169,737 in FY19. The decrease was primarily attributable to lower expenses incurred for the San Leandro Medical Arts building (SLMAB). The building was sold in March 2019 and expenses were lower by \$112,960 as a result. Dublin Gateway Medical Center (DGMC) expenses decreased by \$58,173. Of this amount \$44,311 was due to lower billable expense incurred for garbage and utilities. The expenses were for the building located at 4050 Dublin Boulevard which was purchased by Palo Alto Medical Foundation (PAMF), an affiliate of Sutter Health in FY16. In mid October PAMF changed the billing name and address and the invoices are now sent directly to PAMF.

Net non-operating income increased by \$3,164,912 to \$2,577,737 in FY19 compared to the operating expense of \$587,175 in FY18. The increase was primarily attributable to the gain of \$3,046,444 on the sale of the San Leandro Medical Arts building (SLMAB). The change in the fair value of the District's investments also increased \$184,770 compared to FY18. These increases in income were offset with an increase in interest expense of \$67,365. Of this amount \$83,477 was an increase in interest expense for the 5<sup>th</sup> payment of the damages award to Sutter. This was primarily due to an increase in the 1-Year Treasury Bill interest rate on January 2, 2019. This increase was primarily offset with a decrease of \$16,124 in interest expense for the DGMC building loan.

Eden Township Healthcare District  
dba Eden Health District

Management's Discussion and Analysis

June 30, 2019 and 2018

	As of June 30,		
	2019	2018	2017
<b>Net position</b>			
Invested in capital assets, net of related debt	\$ 25,045,744	\$ 28,419,500	\$ 29,873,563
Unrestricted	(2,136,510)	(6,997,435)	(6,696,590)
Total net position	<u>\$ 22,909,235</u>	<u>\$ 21,422,065</u>	<u>\$ 23,176,973</u>

At June 30, 2019, total net position increased \$1,487,170 from \$21,422,065 to \$22,909,235. Invested in capital assets net of related debt decreased \$3,373,756. The decrease was attributable to the current year depreciation expense of \$2,127,323 and the write off of the net book value of the SLMAB for \$1,876,836. These decreases were offset with new tenant improvements of \$135,000 and the paydown of the DGMC loan by \$495,404. Unrestricted net deficit decreased by \$4,860,925. The decrease was primarily due to the net profit realized on the sale of the SLMAB of \$3,046,444 and the reduction of \$2,171,221 in the settlement payable to Sutter Health.

### Capital Assets

The District's capital assets include land, construction in progress, land improvements, buildings, tenant improvements and equipment. At June 30, 2019 and 2018, the District's investment in capital assets totaled \$37,183,469 and \$41,052,628 respectively. During 2019, the District's reduction to depreciable capital assets was \$2,885,058. The reduction was primarily due to the sale of the San Leandro Medical Arts building in March 2019. The value of the building and the related improvements at the time of the sale was \$1,876,836. Other reductions occurred from retiring fully depreciated tenant improvements of \$974,321, building improvements of \$25,796 and land improvements of \$8,105. Of the tenant improvements, \$837,521 was for the DGMC property and \$136,800 was for the EMB. Of the building improvements, \$13,976 was for the DGMC property and \$11,820 was for the EMB. The reduction of land improvements was for the DGMC property.

# Eden Township Healthcare District dba Eden Health District

## Management's Discussion and Analysis

June 30, 2019 and 2018

### Debt Administration

At June 30, 2019 the District's outstanding balance for loans payable was \$12,137,724. 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 SLMAB and \$3,300,000 of marketable securities. The maturity date was 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 DGMC. 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 DGMC. 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 EMB, SLMAB and marketable securities of \$3,326,397. The maturity date was February 1, 2016.

A seventh modification was executed on January 20, 2016. The maturity date of the note was extended to February 1, 2017 and the required unencumbered liquid assets were reduced from \$8,000,000 to \$6,000,000. The line of credit principal balance of \$9,702,397 which was allocated amongst the SLMAB (\$2,806,000), the EMB (\$3,570,000), and marketable securities (\$3,326,397) was consolidated with the notes commitment of \$35,214,969 to form a single indebtedness in the principal amount of \$44,917,366. In March 2016, one of the buildings in DGMC was sold and the proceeds of \$33,197,588 were used to pay down the loan balance. The outstanding balance of loans payable was \$11,719,779 as of June 30, 2016. US Bank extended the maturity date for one year to February 1, 2017. The District was in the process of obtaining permanent financing through a privately placed tax exempt offering and the existing loan with US Bank was further extended by six months. The permanent debt (10 year term, 20 year amortization) provided by First Northern Bank closed on April 3, 2017.

Eden Township Healthcare District  
dba Eden Health District

Management's Discussion and Analysis

June 30, 2019 and 2018

**Economic Factors and Next Year's Budget**

On June 30, 2019, the District has two rental properties for which income and expenses are included in the fiscal year 2020 budget. The Dublin building continues to be occupied by long-term tenants, is 100% occupied and produces positive cash flow. The EMB was first occupied in August 2012. On June 30, 2019 the occupancy was 80%. The EMB has had positive cash flow from first occupancy. This building continues to produce increasing cash flow and the District is in the process of finalizing a new lease for the remaining available space.

**Contacting the District's Financial Management**

The District's financial report is designed to provide the District's Board of Directors, management, creditors, legislative and oversight agencies, citizens and others with an overview of the District's finances and to demonstrate its accountability for funds received. For additional information about this report, please contact the District's office at 20400 Lake Chabot Road Suite 303, Castro Valley, CA 94546.

## Basic Financial Statements

Eden Township Healthcare District  
dba Eden Health District

Statements of Net Position

June 30, 2019 and 2018

	2019	2018
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 2,183,328	\$ 880,485
Tenant receivables	22,311	217,809
Interest receivable	25,664	17,555
Other receivables	12,472	25,535
Prepaid expenses and deposits	65,898	31,276
Total current assets	<u>2,309,673</u>	<u>1,172,660</u>
Investments	6,214,240	4,391,683
Capital assets, net of accumulated depreciation	37,183,469	41,052,628
Other assets	870,918	1,043,523
	<u><u>\$ 46,578,300</u></u>	<u><u>\$ 47,660,496</u></u>
<b>Liabilities and Net Position</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 371,869	\$ 219,239
Interest payable	32,995	34,326
Security deposits held	165,372	186,557
Unearned rent	-	17,858
Grants payable	105,000	120,000
Current portion of loan payable	510,931	495,438
Current portion of settlement payable	2,171,221	2,163,662
Total current liabilities	<u>3,357,387</u>	<u>3,237,079</u>
Loan payable, net of current maturities	11,626,793	12,137,690
Settlement payable, net of current portion	8,684,881	10,863,661
Total liabilities	<u>23,669,063</u>	<u>26,238,430</u>
Net position		
Invested in capital assets, net of related debt	25,045,744	28,419,500
Unrestricted	(2,136,510)	(6,997,435)
Total net position	<u>22,909,235</u>	<u>21,422,065</u>
Total liabilities and net position	<u><u>\$ 46,578,300</u></u>	<u><u>\$ 47,660,496</u></u>

*See accompanying notes to the financial statements*

Eden Township Healthcare District  
dba Eden Health District

Statements of Revenues, Expenses and Changes in Net Position

For The Years Ended June 30, 2019 and 2018

	2019	2018
<b>Operating revenues</b>		
Rental income	\$ 3,531,873	\$ 3,528,266
Tenant reimbursements	1,669,307	1,621,964
Total operating revenues	<u>5,201,180</u>	<u>5,150,230</u>
<b>Operating expenses</b>		
Salaries and benefits	430,201	404,398
Consulting and community education	67,970	68,368
Audit fees	20,900	25,102
Public relations	2,847	9,700
Legal fees	30,479	29,830
Insurance	62,029	69,036
Purchased services	735,344	314,358
Rental property operating and maintenance	1,877,668	2,047,405
Taxes	234,590	256,938
Grants to service providers and community	534,200	614,950
Depreciation & amortization	2,295,519	2,477,878
Total operating expenses	<u>6,291,747</u>	<u>6,317,963</u>
Operating loss	<u>(1,090,567)</u>	<u>(1,167,733)</u>
<b>Nonoperating revenues (expenses)</b>		
Investment income	228,792	42,959
Interest expense	(697,499)	(630,134)
Other non-operating income (expense)	3,046,444	-
Total nonoperating revenues (expenses)	<u>2,577,737</u>	<u>(587,175)</u>
Increase (decrease) in net position	<u>1,487,170</u>	<u>(1,754,908)</u>
Net position, beginning of the year	<u>21,422,065</u>	<u>23,176,973</u>
Net position, end of year	<u><u>\$ 22,909,235</u></u>	<u><u>\$ 21,422,065</u></u>

*See accompanying notes to the financial statements*

Eden Township Healthcare District  
dba Eden Health District

Statements of Cash Flows

For The Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 5,357,635	\$ 5,019,533
Cash payments to suppliers of goods and services	(2,670,464)	(4,204,594)
Cash payments to employees for services	(425,898)	(400,095)
Grant payments	(549,200)	(619,450)
Tax payments	(234,590)	(256,938)
Net cash provided by (used in) operating activities	<u>1,477,483</u>	<u>(461,544)</u>
<b>Cash flows from investing activities</b>		
Investment income received	126,752	144,577
Net sale of investments	54,278	2,476,759
Net real and unreal gain (loss) on investments	93,931	(90,839)
Net cash provided by non-capital and related financing activities	<u>274,961</u>	<u>2,530,497</u>
<b>Cash flows from capital and related financing activities</b>		
Purchase of capital assets	(135,000)	(383,465)
Gain on sale of capital assets	3,046,444	-
Payments of long-term debt	(495,404)	(479,390)
Interest paid on capital debt	(698,830)	(631,429)
Change in prepaid lease and loan costs	4,410	(88,446)
Net settlement activity	(2,171,221)	(2,163,661)
Net cash used in capital and related financing activities	<u>(449,601)</u>	<u>(3,746,391)</u>
Increase (decrease) in cash and cash equivalents	<u>1,302,843</u>	<u>(1,677,438)</u>
Cash and cash equivalents at beginning of year	880,485	2,557,923
Cash and cash equivalents at end of year	<u><u>\$ 2,183,328</u></u>	<u><u>\$ 880,485</u></u>

*See accompanying notes to the financial statements*

Eden Township Healthcare District  
dba Eden Health District

Statements of Cash Flows (continued)

For The Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Reconciliation of income from operations to net cash provided by operating activities</b>		
Operating loss	\$ (1,090,567)	\$ (1,167,733)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,295,519	2,477,878
Changes in operating assets and liabilities		
Tenant receivables	195,498	(135,475)
Other receivables	13,065	8,861
Prepaid expenses	(34,622)	49,278
Accounts payable and accrued expenses	152,633	(1,694,631)
Security deposits held	(21,185)	6,809
Unearned rent	(17,858)	(2,031)
Grants payable	(15,000)	(4,500)
Net cash provided by (used in) operating activities	<u>\$ 1,477,483</u>	<u>\$ (461,544)</u>

*See accompanying notes to the financial statements*

# Eden Township Healthcare District dba Eden Health District

## Notes to Consolidated Financials Statements

June 30, 2019 and 2018

### 1. Organization

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

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

In May 2007, the District, in partnership with Dublin Gateway, LLC, acquired Triad Dublin Gateway, LP, (TDG LP) for the purpose of purchasing, owning, operating and developing the Dublin Gateway Medical Center (DGMC). Since TDG LP is wholly owned and controlled by the District through its ownership of Dublin Gateway, LLC, the operations of TDG LP are included within the District. Dublin Gateway, LP was dissolved during fiscal year 2014 and Dublin Gateway, LLC was dissolved in May 2017.

The District owns two medical office properties; DGMC and the Eden Medical Building located in Castro Valley, California. The two 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.

# Eden Township Healthcare District dba Eden Health District

## Notes to Consolidated Financials Statements

June 30, 2019 and 2018

### **1. Organization (continued)**

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

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

### **2. Summary of Significant Accounting Policies**

#### *Basis of Accounting and Financial Statement Presentation*

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

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

The District reports information regarding its financial position and activities according to three classes of net position: invested in capital assets, net of related debt, restricted and unrestricted.

Eden Township Healthcare District  
dba Eden Health District

Notes to Consolidated Financials Statements

June 30, 2019 and 2018

**2. Summary of Significant Accounting Policies (continued)**

*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 position* - 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.

*Unrestricted net position* - 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.

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

Cash and Cash Equivalents

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

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.

Eden Township Healthcare District  
dba Eden Health District

Notes to Consolidated Financials Statements

June 30, 2019 and 2018

**2. Summary of Significant Accounting Policies (continued)**

Fair Value Measurements

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

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

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

- *Level 1* - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- *Level 2* - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Level 2 also includes practical expedient investments with notice periods for redemption of 90 days or less.
- *Level 3* - Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. Level 3 also includes principal expedient investments with notice periods for redemption of more than 90 days.

Eden Township Healthcare District  
dba Eden Health District

Notes to Consolidated Financials Statements

June 30, 2019 and 2018

**2. Summary of Significant Accounting Policies (continued)**

Fair Value Measurements (continued)

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

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

Capital Assets, net

Capital assets are stated at cost when purchased or constructed, or, for donated property, at the asset's estimated fair value at the time the donated property is received. Depreciation is provided using the straight-line method over the assets' estimated useful lives ranging from 5 to 30 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.

Compensated Absences

District employees earn vacation and sick leave benefits at varying rates depending on their years of service at the District. Both benefits can accumulate up to specified maximum levels. Employees are not paid for accumulated sick leave benefits if they leave either upon termination or before retirement. However, accumulated vacation benefits are paid to an employee upon either termination or retirement. Accrued vacation liabilities as of June 30, 2019 and 2018 are \$28,349 and \$18,117, respectively.

Eden Township Healthcare District  
dba Eden Health District

Notes to Consolidated Financials Statements

June 30, 2019 and 2018

**2. Summary of Significant Accounting Policies (continued)**

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Actual results could differ from those estimates.

Subsequent events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

**3. Cash and Investments and Custodial Credit Risk**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the 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, 2019 and 2018, the District had cash and equivalents on deposit at banks of \$2,780,389 and \$621,019, respectively that were covered by depository insurance or collateralized by the pledging financial institution.

At June 30, 2019 and 2018 the balances on deposit at financial institutions in excess of federal depository insurance limits of \$250,000 totaled \$2,118,791 and \$38,905 respectively, and were held in uncollateralized accounts.

Eden Township Healthcare District  
dba Eden Health District

Notes to Consolidated Financials Statements

June 30, 2019 and 2018

**4. Investments**

The District's investment balances and average maturities were as follows at June 30, 2019 and 2018:

2019				
	Fair Value	Investment Maturities in Years		
		Less than 1	1 to 5	Over 5
Corporate bonds	\$ 3,030,784	\$ 962,566	\$ 2,068,218	\$ -
U.S. Treasury notes	2,978,670	1,191,100	1,787,570	-
U. S. government obligations	204,786	-	-	204,786
Total investments	<u>\$ 6,214,240</u>	<u>\$ 2,153,666</u>	<u>\$ 3,855,788</u>	<u>\$ 204,786</u>

  

2018				
	Fair Value	Investment Maturities in Years		
		Less than 1	1 to 5	Over 5
Corporate bonds	\$ 2,222,508	\$ 918,110	\$ 1,304,398	\$ -
U.S. Treasury notes	1,806,020	268,420	1,537,600	-
Fixed income securities	119,963	-	119,963	-
U. S. government obligations	243,192	-	-	243,192
Total investments	<u>\$ 4,391,683</u>	<u>\$ 1,186,530</u>	<u>\$ 2,961,961</u>	<u>\$ 243,192</u>

Interest income, dividends, and both realized and unrealized gains and losses on investments are recorded as investment income. These amounts were \$228,792 and \$42,959 for the years ended June 30, 2019 and 2018, respectively. Total investment income includes both income from operating cash and cash equivalents and cash and cash equivalents related to assets limited as to use.

Eden Township Healthcare District  
dba Eden Health District

Notes to Consolidated Financials Statements

June 30, 2019 and 2018

**4. Investments (continued)**

Investments authorized by the California Government Code

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest 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's exposure to interest rate risk is minimal as 27% of their investments have a maturity of less than one year, 67% have a maturity of one year to five years and only 6% have a maturity of over 5 years. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the preceding schedules that shows the distribution of the District's investments by maturity.

Eden Township Healthcare District  
dba Eden Health District

Notes to Consolidated Financials Statements

June 30, 2019 and 2018

**4. Investments (continued)**

Credit Risk

Credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization, such as Moody's Investor Service, Inc. The District's investments in such obligations are in corporate bonds, U.S. Treasury notes, fixed income securities and U.S. government obligations. The District believes that there is minimal credit risk with these obligations at this time.

The District's credit rating risk is governed by Section 53601 of the California Government Code, which, among others, limits investments in money market mutual funds to those funds with the highest ranking by at least one of the national rating agencies and investments in corporate bonds are limited to those with a minimum ranking of A by at least one national rating agency. The District did not hold any investments at June 30, 2018 and 2017 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.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District diversifies its portfolio as required by the California Government Code. The District's investments are held as follows: governmental agencies 97% and banks 3%. None of the District's individual investments were greater than 5% of the District's investments as a whole.

Eden Township Healthcare District  
dba Eden Health District

Notes to Consolidated Financials Statements

June 30, 2019 and 2018

**5. Fair Value Measurements**

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value as of June 30, 2019 and 2018:

2019				
	Level 1	Level 2	Level 3	Total
Corporate bonds	\$ 3,030,784	\$ -	\$ -	\$ 3,030,784
U.S. Treasury notes	2,978,670	-	-	2,978,670
U. S. government obligations	204,786	-	-	204,786
Total assets at fair value	<u>\$ 6,214,240</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,214,240</u>

  

2018				
	Level 1	Level 2	Level 3	Total
Corporate bonds	\$ 2,222,508	\$ -	\$ -	\$ 2,222,508
U.S. Treasury notes	1,806,020	-	-	1,806,020
Fixed income securities	119,963	-	-	119,963
U. S. government obligations	243,192	-	-	243,192
Total assets at fair value	<u>\$ 4,391,683</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,391,683</u>

Eden Township Healthcare District  
dba Eden Health District

Notes to Consolidated Financials Statements

June 30, 2019 and 2018

**6. Capital Assets**

Capital assets as of June 30, 2019 and 2018 were comprised of the following:

	Balance at June 30, 2018	Transfers & Additions	Transfers & Retirements	Balance at June 30, 2019
Land and land improvements	\$ 13,057,215	\$ -	\$ (8,105)	\$ 13,049,110
Buildings	35,279,907	-	(3,170,473)	32,109,434
Building improvements	4,445,017	-	(978,569)	3,466,448
Tenant improvements	6,165,614	135,000	(1,977,913)	4,322,701
Totals at historical cost	58,947,753	135,000	(6,135,060)	52,947,693
Less accumulated depreciation	(17,895,125)	\$ (2,127,324)	\$ 4,258,225	(15,764,224)
Capital assets, net	<u>\$ 41,052,628</u>			<u>\$ 37,183,469</u>

  

	Balance at June 30, 2017	Transfers & Additions	Transfers & Retirements	Balance at June 30, 2018
Land and land improvements	\$ 13,057,215	\$ -	\$ -	\$ 13,057,215
Buildings	35,279,907	-	-	35,279,907
Building improvements	4,439,560	39,954	(34,497)	4,445,017
Tenant improvements	4,480,179	2,142,628	(457,193)	6,165,614
Equipment	27,989	-	(27,989)	-
Construction-in-progress	1,799,119	-	(1,799,119)	-
Totals at historical cost	59,083,969	2,182,582	(2,318,798)	58,947,753
Less accumulated depreciation	(16,097,888)	\$ (2,316,916)	\$ 519,679	(17,895,125)
Capital assets, net	<u>\$ 42,986,081</u>			<u>\$ 41,052,628</u>

Eden Township Healthcare District  
dba Eden Health District

Notes to Consolidated Financials Statements

June 30, 2019 and 2018

**7. Goodwill**

Goodwill relates to the District's purchase of San Leandro Hospital (SLH) in July 2004. As a result of the purchase of SLH by Sutter Health, the majority of the goodwill associated with the original acquisition of SLH was written off as of June 30, 2012. In April 2015, the District sold its partnership interest in the San Leandro SurgiCenter. As a result of the sale, the remaining goodwill associated with SurgiCenter was written off as of June 30, 2015. The remaining goodwill is attributable to the District's interest in the San Leandro Medical Arts Building in the amount of \$211,604. 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. Amortization expense related to goodwill was \$7,054 for the year ended June 30, 2019 and \$10,580 for the year ended June 30, 2018. The remaining goodwill of \$56,427 was written off when the San Leandro Medical Arts Building was sold in March 2019.

**8. Long-term Liabilities**

Bank Loan Payable

At June 30, 2017 the District's bank loan payable balance was \$13,112,518. The original note was obtained on May 17, 2007 with US Bank for a maximum amount of \$54,000,000 for the construction of the Dublin Gateway Center. 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 \$7,000,000 for tenant improvements, \$500,000 for the payment of leasing commissions and \$1,400,000 for interest reserves. The District financed total interest from the holdback reserves of \$1,111,991 and funded tenant improvements of \$1,990,407 through the date of the first loan modification. The terms of the note were modified on May 25, 2010 causing the remaining balance of \$5,797,602 available as holdback reserves to be cancelled which reduced the maximum amount available under the loan to \$48,202,397. The maturity date of the loan was extended from June 1, 2010 to September 1, 2010 under the modification.

A second modification was executed on September 27, 2010. The note's total commitment was reduced to \$40,500,000 and the maturity date was extended to October 1, 2012. A new secured line of credit was executed simultaneously for the remaining balance of \$7,702,398. The line of credit was executed to increase the bank's total security on the outstanding principal balance at September 1, 2010 of \$46,202,398. The principal of \$7,702,398 outstanding on the line of credit is secured by the San Leandro Medical Arts Building and \$3,300,000 of marketable securities. The maturity date of the line of credit is October 1, 2012. The variable interest rates on the note and the line of credit were 3.24% and 3.00%, respectively, as of June 30, 2012.

Eden Township Healthcare District  
dba Eden Health District

Notes to Consolidated Financials Statements

June 30, 2019 and 2018

**8. Long-term Liabilities (continued)**

Bank Loan Payable (continued)

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

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

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

A sixth modification was executed on January 31, 2013. The note's total commitment was reduced to \$35,214,969 and the District made a principal payment of \$5,000,000. The maturity date of the note was extended to February 1, 2016 and the District was no longer required to pay US Bank 50% of all excess cash flow for the prior month's financial results of the Dublin Gateway operations. The required unencumbered liquid assets were also reduced from \$15,000,000 to \$8,000,000. With regards to the line of credit an additional advance of \$2,000,000 was added to the outstanding principal balance of \$7,702,398. The new principal balance is \$9,702,397 and allocated amongst the San Leandro Medical Arts Building \$(2,806,000), the Eden Medical Building \$(3,570,000), and marketable securities \$(3,326,397). The net principal reduction by the District in this transaction is \$3,000,000, paid in cash. The maturity date of the line of credit is February 1, 2016, concurrent with the note mentioned above. The variable interest rates on the note and the line of credit were 2.90% (LIBOR plus 2.75 points) and 2.94% (LIBOR plus 2.75 points), respectively as of June 30, 2015.

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

Eden Township Healthcare District  
dba Eden Health District

Notes to Consolidated Financials Statements

June 30, 2019 and 2018

**8. Long-term Liabilities (continued)**

Bank Loan Payable (continued)

When Sutter exercised its right to purchase the 4050 Dublin Boulevard building, which was solely occupied by Sutter Health's affiliate, Palo Alto Medical Foundation, the sale resulted in a reduction in principal of \$33,197,587. An eighth modification was executed on January 30, 2017 which extended the maturity date from February 1, 2017 to August 1, 2017. At the time of the modification the District was in the process of obtaining long term financing through a privately placed tax-exempt offering. On April 3, 2017 the District obtained new debt from First Northern Bank and the existing loan with US Bank was paid in full. The new debt of \$13,235,000 is for a ten (10) year term and will be amortized over twenty (20) years. The interest rate is fixed at 3.25%.

Settlement Payable to Sutter Health

This liability is associated with damages awarded to Sutter Health as the result of a lawsuit. The damages awarded is a combination of losses incurred by Sutter Health for the duration of the lawsuit (March 2010 to April 2012) of \$17,179,860, and legal fees and costs and interest of \$2,493,493 plus post judgment interest of \$1,963,266 awarded March 2017. Future interest payments to be made are based upon the current year Treasury note rate.

Changes in the District's long-term liabilities for the fiscal year ended June 30, 2019 and 2018:

	Balance at June 30, 2018	Additions	Paydowns	Balance at June 30, 2019
Bank loan	\$ 12,633,128	\$ -	\$ (495,404)	\$ 12,137,724
Sutter settlement	13,027,323	-	(2,171,221)	10,856,102
	<u>\$ 25,660,451</u>	<u>\$ -</u>	<u>\$ (2,666,625)</u>	<u>\$ 22,993,826</u>

  

	Balance at June 30, 2017	Additions	Paydowns	Balance at June 30, 2018
Bank loan	\$ 13,112,518	\$ -	\$ (479,390)	\$ 12,633,128
Sutter settlement	15,190,985	-	(2,163,662)	13,027,323
	<u>\$ 28,303,503</u>	<u>\$ -</u>	<u>\$ (2,643,052)</u>	<u>\$ 25,660,451</u>

Eden Township Healthcare District  
dba Eden Health District

Notes to Consolidated Financials Statements

June 30, 2019 and 2018

**8. Long-term Liabilities (continued)**

Scheduled net debt service payments including interest for fiscal years ending June 30:

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
✓	2020	2,682,152	675,664	3,357,816
✓	2021	2,700,326	603,210	3,303,536
✓	2022	2,718,026	530,143	3,248,169
✓	2023	2,736,319	455,399	3,191,718
✓	2024	2,754,339	379,838	3,134,177
	Thereafter	9,402,618	778,472	10,181,090
		<u>\$ 22,993,780</u>	<u>\$ 3,422,726</u>	<u>\$ 26,416,506</u>

**9. Medical Office Building Future Rental Income**

The future minimum rental income from operating leases as of June 30, 2019 is as follows:

		<u>Eden Medical Building</u>	<u>Dublin Gateway</u>	<u>Total</u>
✓	2020	\$ 576,775	\$ 2,482,440	\$ 3,059,215
✓	2021	499,917	2,556,913	3,056,830
✓	2022	467,669	2,633,621	3,101,290
✓	2023	428,922	2,332,300	2,761,222
✓	2024	422,748	2,000,642	2,423,390
	Thereafter	1,057,945	3,869,817	4,927,762
		<u>\$ 3,453,976</u>	<u>\$ 15,875,733</u>	<u>\$ 19,329,709</u>

Eden Township Healthcare District  
dba Eden Health District

Notes to Consolidated Financials Statements

June 30, 2019 and 2018

**10. 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 \$17,519 and \$17,054 for the years ended June 30, 2019 and 2018, respectively.

**11. Commitments and Contingencies**

*Litigation*

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

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

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

Eden Township Healthcare District  
dba Eden Health District

Notes to Consolidated Financials Statements

June 30, 2019 and 2018

**11. Commitments and Contingencies (continued)**

The District and Sutter Health were discussing a possible settlement which would involve the sale of some assets to Sutter Health and a modification of the total damages, costs and interest that Sutter Health has claimed. These discussions ended in a stalemate in May 2015 and the District filed a hardship motion in court, arguing that the sale of assets to settle the damages claim in full would irreparably harm the District and its constituents of future earnings and appreciation of its assets and that it should have the full statutory time to make installment payments on the amount owed. The Court granted the District's motion in its entirety, including a reduction in the interest rate to the interest on a one-year Treasury Bill. On August 19, 2015 Sutter Health filed a notice of intent to appeal this ruling. On January 5, 2016 Sutter Health filed an appeal with the Appeals Court contesting the judgment and the grant of a ten year payment plan and reduced interest rates. This case has been fully briefed and oral arguments have not been scheduled as of the date the financial statements were available to be issued in FY16.

The District owed Sutter Health \$19,673,353 on the damages claim, court costs, fees and pre-judgment interest. This is the amount to be paid to Sutter Health along with annual interest payments based on the 1-Year Treasury Bill interest on January 1 of each year. The first installment, due on June 30, 2015, was one-tenth of the amount owed, \$1,967,335 plus interest for the period from January 8, 2014 to December 31, 2014, with the interest on a 1-Year Treasury Bill as of January 1, 2015. This payment was made on June 30, 2015. The second installment, due on June 30, 2016, was one-tenth of the amount owed, \$1,967,335 plus interest for the period from January 8, 2015 to December 31, 2015, with the interest on a 1-Year Treasury Bill as of January 1, 2016. This payment was made on June 30, 2016. The remaining balance due on this obligation as of June 30, 2016, was \$15,738,683.

On January 5, 2016 Sutter Health filed an appeal with the Appeals Court contesting the judgment and grant of a reduced interest rate for the time period between the award for damages and the Court's grant of a reduced interest and payments over ten years. In November 2016 the appeals court ruled in favor of Sutter's motion.

On January 5, 2016 Sutter Health filed an appeal with the Appeals Court contesting the judgment and grant of a ten year payment plan and reduced interest rate for the damages award. On November 29, 2016 the court of appeals reversed the lower court's decision for reduced interest during the period between the final judgment of the damages awarded (January 8, 2014) and the date of entry of the order granting the District annual payments over 10 years (June 17, 2015). Additional interest owed for this period is \$1,963,266.

Eden Township Healthcare District  
dba Eden Health District

Notes to Consolidated Financials Statements

June 30, 2019 and 2018

**11. Commitments and Contingencies (continued)**

Legislation

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

**12. Income Taxes**

The District is a political subdivision of the State of California organized under the Local Health Care District Law as set forth in the Health and Safety Code of the State of California. The District has been determined to be exempt from income taxes under Local Health Care District Law. Accordingly, no provision for income taxes is included in the accompanying financial statements. The District is no longer subject to examination by federal or state authorities for years prior to June 30, 2013, nor has it been notified of any impending examination and no examinations are currently in process.

## Supplemental Information

Eden Township Healthcare District  
dba Eden Health District

Combining Statement of Net Position

June 30, 2019 and 2018

	2019				2018
	District Office	Dublin Gateway LP	Eden Medical Building	Eden Health District Total	Eden Health District Total
<b>Assets</b>					
Current Assets					
Cash and cash equivalents	\$ 2,049,238	\$ 117,419	\$ 16,671	\$ 2,183,328	\$ 880,485
Tenant receivables	-	9,540	12,771	22,311	217,809
Interest receivable	25,664	-	-	25,664	17,555
Other receivables	12,472	-	-	12,472	25,535
Prepaid expenses and deposits	44,031	17,133	4,734	65,898	31,276
Total current assets	2,131,405	144,092	34,176	2,309,673	1,172,660
Investments	6,214,240	-	-	6,214,240	4,391,683
Capital assets, net of accumulated depreciation	-	29,604,038	7,579,431	37,183,469	41,052,628
Other assets	-	775,500	95,418	870,918	1,043,523
	<u>\$ 8,345,644</u>	<u>\$ 30,523,629</u>	<u>\$ 7,709,025</u>	<u>\$ 46,578,300</u>	<u>\$ 47,660,496</u>
<b>Liabilities and Net Position</b>					
Current liabilities					
Accounts payable and accrued expenses	\$ 74,506	\$ 269,739	\$ 27,624	\$ 371,869	\$ 219,239
Interest payable	-	32,995	-	32,995	34,326
Security deposits held	-	114,502	50,870	165,372	186,557
Unearned rent	-	-	-	-	17,858
Grants payable	105,000	-	-	105,000	120,000
Current portion of loan payable	-	510,931	-	510,931	495,438
Current portion of settlement payable	2,171,221	-	-	2,171,221	2,163,662
Total current liabilities	2,350,727	928,167	78,494	3,357,387	3,237,079
Loan payable, net of current portion	-	11,626,793	-	11,626,793	12,137,690
Settlement payable, net of current portion	8,684,881	-	-	8,684,881	10,863,661
Total liabilities	11,035,608	12,554,960	78,494	23,669,063	26,238,430
Net position					
Invested in capital assets, net of related debt	-	17,466,313	7,579,431	25,045,744	28,419,500
Unrestricted	(2,689,964)	502,354	51,100	(2,136,510)	(6,997,435)
Total net position	(2,689,964)	17,968,667	7,630,531	22,909,235	21,422,065
Total liabilities and net position	<u>\$ 8,345,644</u>	<u>\$ 30,523,629</u>	<u>\$ 7,709,025</u>	<u>\$ 46,578,300</u>	<u>\$ 47,660,496</u>

Eden Township Healthcare District  
dba Eden Health District

Combining Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2019 and 2018

	2019						2018
	District <u>Office</u>	Community <u>Services</u>	Dublin <u>Gateway LP</u>	San Leandro Medical Arts <u>Building</u>	Eden Medical <u>Building</u>	Eden Health District Total	Eden Health District Total
<b>Operating revenues</b>							
Rental income	\$ -	\$ -	\$ 2,352,417	\$ 635,287	\$ 544,169	\$ 3,531,873	\$ 3,528,266
Tenant Reimbursements	-	-	1,488,455	-	180,852	1,669,307	1,621,964
Total operating revenues	-	-	3,840,872	635,287	725,021	5,201,180	5,150,230
<b>Operating expenses</b>	-						
Salaries and benefits	430,201	-	-	-	-	430,201	404,398
Consulting/Community Education	14,779	53,191	-	-	-	67,970	68,368
Audit Fees	20,900	-	-	-	-	20,900	25,102
Public Relations	2,847	-	-	-	-	2,847	9,700
Legal Fees	29,289	-	1,190	-	-	30,479	29,830
Insurance	30,063	-	17,415	7,958	6,593	62,029	69,036
Other Purchased services	733,587	-	1,732	25	-	735,344	314,358
Rental property operating and maintain	-	-	1,242,620	364,502	270,546	1,877,668	2,047,405
Taxes	-	-	234,590	-	-	234,590	256,938
Grants to service providers and commur	-	534,200	-	-	-	534,200	614,950
Amortization	7,053	-	131,641	10,577	18,925	168,196	160,960
Depreciation	-	-	1,318,979	279,467	528,877	2,127,323	2,316,918
Total operating expenses	1,268,720	587,391	2,948,167	662,529	824,941	6,291,747	6,317,963
Allocation of Operating Expenses	(1,268,720)	148,364	744,650	167,342	208,364	-	-
<b>Allocation Percentage</b>		25.26%	25.26%	25.26%	25.26%		
<b>Operating loss</b>	-	(735,755)	148,055	(194,584)	(308,284)	(1,090,567)	(1,167,733)
<b>Nonoperating revenues (expenses):</b>							
Interest income	134,031	-	-	-	830	134,861	133,798
Interest expense	(288,555)	-	(408,932)	-	(12)	(697,499)	(630,134)
Change in fair value of investments	93,931	-	-	-	-	93,931	(90,839)
Other gain/(loss)	-	-	-	3,046,444	-	3,046,444	-
Total nonoperating revenues (expen	(60,593)	-	(408,932)	3,046,444	818	2,577,737	(587,175)
Allocation of nonoperating revenues	60,593	(7,086)	(35,564)	(7,992)	(9,951)	-	-
<b>Change in net position</b>	\$ -	\$ (742,840)	\$ (296,441)	\$ 2,843,868	\$ (317,417)	\$ 1,487,170	\$ (1,754,908)