

Audited Financial Statements

**MARK TWAIN
HEALTH CARE DISTRICT**

June 30, 2019

**JWT & Associates, LLP
Certified Public Accountants**

Audited Financial Statements

MARK TWAIN HEALTH CARE DISTRICT

June 30, 2019

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Management's Discussion and Analysis

MARK TWAIN HEALTH CARE DISTRICT

June 30, 2019

The management of the Mark Twain Health Care District (the District) has prepared this annual discussion and analysis in order to provide an overview of the District's performance for the fiscal year ended June 30, 2019 in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements; Management's Discussion and Analysis for State and Local Governments*. The intent of this document is to provide additional information on the District's financial performance as a whole in addition to providing a prospective look at revenue growth, operating expenses, and capital development plans. This discussion should be reviewed in conjunction with the audited financial statements for the fiscal year ended June 30, 2019 and accompanying notes to the financial statements to enhance one's understanding of the District's financial performance.

Financial Highlights

The District's financial statements consist of three statements: balance sheet; statement of revenues, expenses, and changes in net position; and statement of cash flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes by contributors, grantors, or enabling legislation.

The balance sheet includes all of the District's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be used for general purposes and which are designated for a specific purpose.

Highlights within the balance sheet for the year ended June 30, 2019 were:

- (1) Total assets increased by \$10,342,853 due mainly to the minority interest payment by Dignity in conjunction with the new lease agreement signed towards the end of the year for the leasing of the Hospital facilities;
- (2) Cash and cash equivalents increased by \$14,264,587, again due to the reason mentioned above. Cash inflows totaled a net \$596,851 from operations. Net property and purchases were \$3,790,363 towards the construction of a new rural health clinic in Valley Springs;
- (3) Other receivables increased by \$79,335 as property taxes increased by 85,656 for the year;
- (4) Property and equipment increased by \$3,767,172 due to the construction-in-progress additions of \$3,790,363 as previously mentioned, less depreciation expense of \$23,191. The clinic is scheduled for completion in the fall of 2019, at which time the District will begin rural health care clinic operations in Valley Springs.
- (5) Debt borrowings were \$3,846,784 representing draws on the USDA loan used to fund the construction of the new rural health clinic in Valley Springs.
- (6) Due to the new 30-year lease agreement, the District recorded approximately \$6.8 million in other assets, offset by approximately \$6 million in deferred revenues, all associated with the 30 year leasing of the Hospital facilities by Dignity.

Management's Discussion and Analysis (continued)

MARK TWAIN HEALTH CARE DISTRICT

The statement of revenues, expenses and changes in net position reports all of the revenues earned and expenses incurred during the time period indicated. Net position (the difference between total assets and total liabilities) is one way to measure the financial health of the District.

Highlights within the statement of revenues, expenses and changes in net position for the year ended June 30, 2019 were:

(1) An excess of operating revenues over operating expenses of \$643,896 as compared to the prior year increase of \$473,244. Operating revenues were \$1,733,270 (an increase of \$188,225 over the prior year) while operating expenses were \$1,052,416 (a decrease of \$19,385 over the prior year);

(2) A \$36,958 net loss in the combined lease and other interest in Mark Twain Medical Center for the year ended June 30, 2019 as compared to the 2018 loss of \$587,223.

The statement of cash flows reports the cash provided by and used by the District's operating activities, as well as other cash sources such as investment income and cash payments for capital additions and improvements. This statement provides meaningful information on how the District's cash was generated and how it was used during the fiscal year.

Cash and Investments

For the fiscal year ended June 30, 2019, the District's operating cash and investments totaled \$16,123,892 as compared to \$1,859,305 in fiscal year 2018. At June 30, 2019, days cash on hand were 5,794 as compared to June 30, 2018 when days cash on hand were 649. Again, the large increase was due to the Dignity payment of the accumulative minority interest as previously mentioned. The District maintains sufficient cash and cash equivalent balances to pay all short-term liabilities, plus fund the forthcoming operations of the new rural health clinic.

Current Assets and Liabilities

Current assets increased by \$14,327,321 due mainly to the previously mentioned increase in cash and cash equivalents. Current liabilities decreased by \$47,827. These changes produced a current ratio of 86.23 for June 30, 2019 as compared to 8.61 for June 30, 2018.

Management's Discussion and Analysis (continued)

MARK TWAIN HEALTH CARE DISTRICT

Capital and Other Assets

Property and equipment increased by \$3,767,172 as additions were \$3,790,363, less depreciation expense of \$23,191. The increase was for the continued capitalized costs of preparing the property in Valley Springs, California for the new rural health care clinic location.

The District also spent an additional \$16,424 in costs towards the lease negotiations for the new long-term lease with Dignity regarding the leasing of the Mark Twain Medical Center. These costs have been capitalized as an other asset for an accumulated total of \$357,567 as of June 30, 2019. Amortization of these costs began in June 2019 and will run for 30 years to match the terms of the new lease agreement. In addition and as previously mentioned, the District recorded approximately \$6.8 million in other assets, offset by approximately \$6 million in deferred revenues, all associated with the 30 year leasing of the Hospital facilities by Dignity.

District Revenues and Rental Income

The District receives approximately 65% of its operating support from property taxes. These funds are used to support operations of the District. They are classified as operating revenue as the revenue is directly linked to the operations of the District. Property taxes are levied by the County on the District's behalf during the year, and are intended to help finance the District's activities during the same year. Amounts are levied on the basis of the most current property values on record with the County. Property taxes increased in 2019 by \$85,656 from 2018.

The District also rents and/or leases hospital facilities, private office for physicians and land to various entities and individuals for purposes of supplying healthcare to the residents in the surrounding area. Rental income for the year ended June 30, 2019 decreased slightly by \$32,492 over the previous year due mainly to the termination of monthly lease payments by Dignity due to the arrangements of the new lease.

Operating Expenses

Total operating expenses were \$1,052,416 for fiscal year 2019 compared to \$1,071,801 for the prior fiscal year. The decrease is mainly due primarily to:

- (1) A \$23,477 increase in salaries, wages and employee benefits due to the hiring of new staff coupled with a decrease in tenant services of \$72,662.
- (2) A \$119,264 decrease in professional fees due to fewer issues the District had to deal with this year.
- (3) A \$132,033 increase in donations towards community programs.

Other changes were considered minor.

Management's Discussion and Analysis (continued)

MARK TWAIN HEALTH CARE DISTRICT

Economic Factors and Next Fiscal Year's Budget

The District's board approved the fiscal year ending June 30, 2020 budget at a recent 2019 Board meeting. For fiscal year 2020, the District's budget has the following assumptions:

Property taxes were budgeted at the approximately the same levels of 2019 while rents increase.

Professional fees and other operating expenses are expected to remain fairly consistent for the year as compared to 2019

As noted already, the District is in process of building a new rural health care clinic in Valley Springs which it plans on operating upon completion. Planning is underway both for the completion of the building and for the operations of the clinic which will start during fiscal year 2020.

JWT & Associates, LLP

A Certified Public Accountancy Limited Liability Partnership

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Report of Independent Auditors

The Board of Directors
Mark Twain Health Care District
San Andreas, California

We have audited the accompanying financial statements of the Mark Twain Health Care District, (the District) which comprise the balance sheets 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 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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the California Code of Regulations, Title 2, Section 1131.2 State Controller's *Minimum Audit Requirements* for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 judgement, 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 District'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 District'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 the 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.

Supplementary Information

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

JW7 & Associates, LLP

Fresno, California
January 6, 2019

Balance Sheets

MARK TWAIN HEALTH CARE DISTRICT

	June 30	
	<u>2019</u>	<u>2018</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 16,123,892	\$ 1,859,305
Other receivables	249,757	170,422
Prepaid expenses and deposits		<u>16,601</u>
Total current assets	16,373,649	2,046,328
Property and equipment	5,656,144	1,888,972
Interest in Mark Twain Medical Center	287,693	14,840,434
Other assets	<u>7,144,295</u>	<u>343,194</u>
Total assets	<u>\$ 29,461,781</u>	<u>\$ 19,118,928</u>
Liabilities and Net Position		
Current liabilities:		
Accounts payable and accrued expenses	\$ 175,862	\$ 173,266
Accrued payroll and related liabilities	14,019	16,984
Due to Mark Twain Medical Center		<u>47,458</u>
Total current liabilities	189,881	237,708
Deferred lease revenue	5,900,000	
Debt borrowings	<u>3,846,784</u>	
Total liabilities	9,936,665	
Net position		
Invested in capital assets	1,809,360	1,888,972
Unrestricted net position	<u>17,715,756</u>	<u>16,992,248</u>
	<u>19,525,116</u>	<u>18,881,220</u>
Total liabilities and net position	<u>\$ 29,461,781</u>	<u>\$ 19,118,928</u>

Statements of Revenues, Expenses and Changes in Net Position

MARK TWAIN HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2019</u>	<u>2018</u>
Operating revenues:		
District taxes	\$ 1,085,099	\$ 999,443
Rental income	506,118	538,610
Interest and other income	<u>142,053</u>	<u>6,992</u>
Total revenues, gains and losses	1,733,270	1,545,045
Operating expenses:		
Salaries, wages and administrative benefits	259,670	236,193
Professional fees	213,023	332,287
Donations	132,033	41,925
Programs and events	26,768	5,488
Tenant services		72,662
Medical office building rent	231,983	226,237
Utilities and phone	29,133	
Insurance	19,157	17,043
Repairs and maintenance	2,444	57,593
Depreciation and amortization	36,578	26,582
Other operating expenses	<u>101,627</u>	<u>55,791</u>
Total expenses	<u>1,052,416</u>	<u>1,071,801</u>
Excess of revenues over expenses	680,854	473,244
Nonoperating revenues (expenses):		
Gain (loss) in interest in Mark Twain Medical Center	<u>(36,958)</u>	<u>(587,223)</u>
Increase (decrease) in net position	643,896	(113,979)
Net position at the beginning of the year	<u>18,881,220</u>	<u>18,995,199</u>
Net position at the end of the year	<u>\$ 19,525,116</u>	<u>\$ 18,881,220</u>

Statements of Cash Flows

MARK TWAIN HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from district taxes	\$ 1,090,001	\$ 1,006,790
Cash received from rental & other activities	374,423	459,073
Cash paid for salaries, wages and administrative benefits	(262,635)	(228,601)
Cash paid for suppliers and outside vendors	<u>(604,938)</u>	<u>(815,404)</u>
Net cash provided by operating activities	596,851	421,858
Cash flows from financing and investing activities:		
Purchases of property and equipment	(3,790,363)	(245,158)
Proceeds from debt borrowings	3,846,784	
Increase in deferred revenues	5,900,000	
Interest income	142,053	
Change in other assets	<u>7,569,262</u>	<u>(73,998)</u>
Net cash used in financing activities	<u>13,667,736</u>	<u>(319,156)</u>
Net increase (decrease) in cash and cash equivalents	14,264,587	102,702
Cash and cash equivalents at beginning of year	<u>1,859,305</u>	<u>1,756,603</u>
Cash and cash equivalents at end of year	<u>\$ 16,123,892</u>	<u>\$ 1,859,305</u>
Reconciliation of changes in net position to net cash provided by operating activities		
Excess of revenues over expenses	\$ 680,854	\$ 473,244
Adjustments to reconcile changes in net position to net cash provided by operating activities:		
Depreciation and amortization	26,558	26,582
Changes in operating assets and liabilities:		
District tax and other receivables	(79,335)	25,119
Prepaid expenses	16,601	7,867
Accounts payable and accrued expenses	2,596	(86,907)
Accrued payroll and related liabilities	(2,965)	7,592
Due to Mark Twain Medical Center	<u>(47,458)</u>	<u>(31,639)</u>
Net cash provided by operating activities	<u>\$ 596,851</u>	<u>\$ 421,858</u>

MARK TWAIN HEALTH CARE DISTRICT

June 30, 2019

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Mark Twain Health Care District (the District) is a tax-exempt political subdivision of the State of California operating under the California Health and Safety Code and is governed by a five-member elected Board of Directors. The District was organized in 1946, and began operating a healthcare facility located in San Andreas, California, in 1951.

In 1989, the District arranged with St. Joseph's Regional Health System (SJRHS), who later became Catholic Health Care West (CHW), who then renamed to Dignity Health (DH) (a California-based not-for-profit public benefit corporation) to manage the District-owned Mark Twain Hospital, which later became known as the Mark Twain Medical Center Corporation (the Corporation). DH entered into an agreement with the District at that time to lease the Corporation under the "1989 Lease". During fiscal year 2019, a new lease was entered into with DH as more fully described in Footnote H.

The Corporation's Board of Trustees is appointed by the District and DH whereby DH appoints three members of the seven-member Corporation Board of Trustees and holds significant reserve powers. In the event of its dissolution, the Corporation's bylaws require that its net position be divided equally between the District and DH.

Basis of Preparation: The accounting policies and financial statements of the District generally conform with the recommendations of the audit and accounting guide, *Health Care Organizations*, published by the American Institute of Certified Public Accountants. The financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). For presentation purposes, transactions deemed to be ongoing and central to providing health care services are reported as operational revenues and expenses.

The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on GASB Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the District has elected to apply the provisions of all relevant pronouncements as the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Changes in Financial Statement Presentation: The District has adopted the provisions of GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (Statement 34), as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement 38, *Certain Financial Statement Note Disclosures*. Statement 34 established financial reporting standards for all state and local governments and related entities. Statement 34 primarily relates to presentation and disclosure requirements. The impact of this change was related to the format of the financial statements; the inclusion of management's discussion and analysis; and the preparation of the statement of cash flows on the direct method. The application of these accounting standards had no impact on the total net position.

MARK TWAIN HEALTH CARE DISTRICT

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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 period. Actual results could differ from those estimates.

Risk Management: To cover the District against various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accidental benefits, commercial insurance coverage is purchased.

Cash and Cash Equivalents and Investments: The District considers cash and cash equivalents to include certain investments in highly liquid debt instruments, when present, with an original maturity of a short-term nature or subject to withdrawal upon request. Exceptions are for those investments which are intended to be continuously invested. Investments in debt securities are reported at market value. Interest, dividends and both unrealized and realized gains and losses on investments are included as investment income in nonoperating revenues when earned.

Property and Equipment: Property and equipment are reported on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation. Routine maintenance and repairs are charged to expense as incurred. Expenditures which increase values, change capacities, or extend useful lives are capitalized. Depreciation of property and equipment and amortization of property under capital leases are computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which range from 5 to 40 years for buildings and improvements, and 5 to 20 years for equipment.

Net Position: Net position, under the new GASB requirements, are to be presented in three categories. The first category is net position "invested in capital assets, net of related debt". This category of net position consists of capital assets (both restricted and unrestricted), net of accumulated depreciation and reduced by the outstanding principal balances of any debt borrowings that were attributable to the acquisition, construction, or improvement of those capital assets. The second category is "restricted" net position. This category consists of externally designated constraints placed on certain assets by creditors (such as through debt covenants), grantors, contributors, law or regulations of other governments or government agencies, or law or constitutional provisions or enabling legislation. The third category is "unrestricted" net position. This category consists of the net position that does not meet the definition or criteria of the previous two categories. As of June 30, 2019 and 2018, the District is only required to present unrestricted net position in the presentation of the financial statements as there are no restrictions present under category one or two.

Statements of Cash Flows: For purposes of the statements of cash flows, all highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

Notes to Financial Statements (continued)

MARK TWAIN HEALTH CARE DISTRICT

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

District Tax Revenues: The District receives approximately 65% of its operating support from property taxes. These funds are used to support operations of the District. They are classified as operating revenue as the revenue is directly linked to the operations of the District. Property taxes are levied by the County on the District's behalf during the year, and are intended to help finance the District's activities during the same year. Amounts are levied on the basis of the most current property values on record with the County. The County has established certain dates to levy, lien, mail bills, and receive payments from property owners during the year. Property taxes are considered delinquent on the day following each payment due date.

Grants and Contributions: From time to time, the District may receive grants from various governmental agencies and private organizations. The District may also receive contributions from related foundation and auxiliary organizations, as well as from individuals and other private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or capital acquisitions. These amounts, when recognized upon meeting all requirements, are reported as components of the statement of revenues, expenses and changes in net position.

Operating Revenues and Expenses: The District's statement of revenues, expenses and changes in net position distinguishes only operating revenues and expenses. Operating revenues result from exchange transactions associated with supporting health care services, which is the District's principal activity. Operating expenses are all expenses incurred to support health care services.

NOTE B - BANK DEPOSITS

Collateral: As of June 30, 2019 and 2018, the District had deposits invested in a bank of \$16,123,892 and \$1,859,305, respectively. All of these funds were held in deposits, which are collateralized in accordance with the California Government Code (CGC), or federally insured.

Under the provisions of the CGC, California banks and savings and loan associations are required to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. The pledged securities are held by the pledging financial institution's trust department in the name of the District.

Investments, at times, may consist of state and local agency funds invested in various permissible securities and are stated at quoted market values. Changes in market value between years are reflected as a component of investment income in the accompanying statement of revenues, expenses and changes in net position.

MARK TWAIN HEALTH CARE DISTRICT

NOTE C - TRANSACTIONS BETWEEN RELATED ORGANIZATIONS

The Corporation provided the District with accounting and administrative services for which the Corporation charged a fee to cover the salaries and benefits of the personnel. This fee totaled \$72,662 for the year ended June 30, 2018. These services were terminated by the District and replaced with other options during the fiscal year ended June 30, 2019. At June 30, 2018, the District had \$47,458 in unamortized prepaid rent income resulting from the redemption of the 1986 Bonds made by the Corporation. During the year ended June 30, 2019, the amortization on this asset was completed.

The Corporation leases the District's healthcare facilities in order to conduct patient care services in an acute-care hospital setting. Lease revenue from the Corporation for the years ended June 30, 2019 and 2018 were \$232,000 and \$310,039, respectively. During the year ended June 30, 2019, a new lease agreement was signed with other arrangements as further disclosed in Footnote H.

The former hospital facility lease was renegotiated during the year ended June 30, 2019. The former lease payments were initially in amounts adequate to cover payment of utilities, debt service and insurance on the Series 1986A Bonds not covered by the tax and other revenues of the District, and to maintain ratios and fund accounts pursuant to the terms of a Joint Obligor Agreement between the District and the Corporation dated December 31, 1989, and the Bond Indenture dated August 1, 1986, between the District and Harris Trust Company of California, the bond trustee. As previously mentioned, Footnote H discloses the new lease arrangement.

During the year ended June 30, 2008, the District entered into a land and medical office building lease agreement with San Andreas Medical and Professional Office Building (SAMPO). The District leases land located at 704 Mountain Ranch Road in San Andreas to SAMPO at no cost due to the fact that the development of the property by SAMPO was deemed sufficient to offset any future lease payments. SAMPO built and owns the medical office building (MOB) located on the aforementioned land and then leases the MOB to the District. Lease expense for the years ended June 30, 2019 and 2018 regarding this agreement were \$231,983 and \$226,237, respectively. The District has subleased portions of the MOB to the Stockton Cardiology Medical Group and others, and to the Corporation. Lease revenues under the subleasing arrangements and other arrangements were \$211,883 and \$219,956 for the years ended June 30, 2019 and 2018, respectively.

Notes to Financial Statements (continued)

MARK TWAIN HEALTH CARE DISTRICT

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2019 and 2018 were comprised of the following:

	<u>Balance at June 30, 2018</u>	<u>Transfers & Additions</u>	<u>Disposals & Retirements</u>	<u>Balance at June 30, 2019</u>
Land and land improvements	\$ 1,339,564			\$ 1,339,564
Buildings and improvements	4,568,729			4,568,729
Equipment	698,156			698,156
Construction-in-progress	<u>601,422</u>	<u>3,790,363</u>	<u> </u>	<u>4,391,785</u>
Totals at historical cost	7,207,871	3,790,363		10,998,234
Less accumulated depreciation for:				
Land and land improvements	(134,397)	(2,386)		(136,783)
Buildings and improvements	(4,491,517)	(19,171)		(4,510,688)
Equipment	<u>(692,985)</u>	<u>(1,634)</u>	<u> </u>	<u>(694,619)</u>
Total accumulated depreciation	<u>(5,318,899)</u>	<u>(23,191)</u>	<u> </u>	<u>(5,342,090)</u>
Total property and equipment, net	<u>\$ 1,669,268</u>	<u>\$ 219,704</u>	<u>\$ </u>	<u>\$ 5,656,144</u>

	<u>Balance at June 30, 2017</u>	<u>Transfers & Additions</u>	<u>Disposals & Retirements</u>	<u>Balance at June 30, 2018</u>
Land and land improvements	\$ 1,339,564			\$ 1,339,564
Buildings and improvements	4,568,729			4,568,729
Equipment	698,156			698,156
Construction-in-progress	<u>356,264</u>	<u>245,158</u>	<u> </u>	<u>601,422</u>
Totals at historical cost	6,962,713	245,158		7,207,871
Less accumulated depreciation for:				
Land and land improvements	(132,011)	(2,386)		(134,397)
Buildings and improvements	(4,470,389)	(21,128)		(4,491,517)
Equipment	<u>(691,045)</u>	<u>(1,940)</u>	<u> </u>	<u>(692,985)</u>
Total accumulated depreciation	<u>(5,293,445)</u>	<u>(25,454)</u>	<u> </u>	<u>(5,318,899)</u>
Total property and equipment, net	<u>\$ 1,669,268</u>	<u>\$ 219,704</u>	<u>\$ </u>	<u>\$ 1,669,268</u>

Notes to Financial Statements (continued)

MARK TWAIN HEALTH CARE DISTRICT

NOTE E - DEBT BORROWINGS

On August 8, 2018, the District’s Board of Directors adopted Resolution 2018-11 entitling the authorizing and providing for the incurrence of indebtedness for the purpose of providing a portion of the cost of acquiring, constructing, enlarging, improving and/or extending its facilities to serve an area lawfully within its jurisdiction to serve. In a lease-leaseback transaction, two Certificates of Participation (COP) were signed. COP Series A allowed up to \$6,782,000 and COP Series B allowed up to \$678,000. Details of these borrowings as of June 30, 2019 and 2018, debt borrowings are as follows:

	<u>2019</u>	<u>2018</u>
Mark Twain Health Care District Certificates of Participation, Series A (2018 Capital Improvement Project), original amount up to \$6,782,000; principal payments due to be determined; interest charged at 3.625%; collateralized by District revenues and other property:	\$ 3,812,784	
Mark Twain Health Care District Certificates of Participation, Series B (2018 Capital Improvement Project), original amount up to \$678,000; principal payments due to be determined; interest charged at 3.875%; collateralized by District revenues and other property:	<u>34,000</u>	
	3,846,784	
Less current maturities of debt borrowings	<u>-0-</u>	
	<u>\$ 3,846,784</u>	

Future principal maturities for debt borrowings for the next succeeding five years have not yet been determined by the USDA as the project is still under construction and all available funds have not yet been drawn.

On May 1, 1996, the Corporation borrowed \$11,175,000 to finance a new health facility and to defease the Mark Twain Hospital District Insured Revenue Bonds Series 1986A (the Series 1986A Bonds) previously issued by the District. In exchange for assuming the District’s debt obligation, the Corporation has been granted a prepaid lease payment to the District that has been recorded as a long-term liability in the accompanying financial statements. The prepaid rent was being amortized over the life of the former lease agreement with the Corporation. As of result of the new lease agreement, the prepaid lease payment was terminated during the year end June 30, 2019.

MARK TWAIN HEALTH CARE DISTRICT

NOTE F - INTEREST IN MARK TWAIN MEDICAL CENTER

In the former agreement between the Corporation and the District, in the event of a dissolution or a winding up of the Corporation, 50% of its assets remaining after payment, or provision for payment, of all debts and liabilities of the Corporation, were to be distributed to Dignity Health, a California nonprofit public benefit corporation. The other 50% would be distributed to the District. As a result of this agreement, the District had recorded \$14,480,434 as of June 30, 2018, respectively, as its portion of its interest in the Corporation. This amount represented the 50% of the net difference between the assets and the liabilities of the Corporation as of its June 30, 2018 audited financial statements. As of result of the new lease agreement with Dignity Health, this agreement was amended to reduce the 50% interest to 1% for the year ended June 30, 2019, resulting in an interest of \$287,693 as of June 30, 2019.

NOTE G - COMMITMENTS AND CONTINGENCIES

Construction-in-Progress: As of June 30, 2019 the District has recorded \$4,391,785 as construction-in-progress representing cost capitalized towards the purchase of land and construction of a rural health care clinic in Valley Springs, California. Future costs to complete this project as of June 30, 2019 is approximately \$3,700,000.

Medical Office Building Rent: The District leases various office space under operating leases expiring at various dates. Total building rent expense for the years ended June 30, 2019 and 2018, was \$231,983 and \$226,237, respectively. Future minimum lease payments for the succeeding years under these leases as of June 30, 2019, that have initial or remaining lease terms in excess of one year are not significant for disclosure.

Litigation: The District may from time-to-time be involved in litigation and regulatory investigations which arise in the normal course of doing business. After consultation with legal counsel, management estimates that matters existing as of June 30, 2019 will be resolved without material adverse effect on the District's future financial position, results from operations or cash flows.

Regulatory Environment: The District is subject to several laws and regulations. These laws and regulations include matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Government activity has increased with respect to possible violations of statues and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with all applicable government laws and regulations and is not aware of any future actions or unasserted claims at this time.

Notes to Financial Statements (continued)

MARK TWAIN HEALTH CARE DISTRICT

NOTE H - DIGNITY HEALTH LEASE

On May 31, 2019, the District and Dignity Health (DH) consummated a 30-year lease of the Mark Twain Medical Center. The final closure entailed 10 different documents: (1) a Prelease Agreement; (2) a Lease Agreement; (3) a Supplemental Property Agreement; (4) an Equity Transfer Agreement; (5) a Lease Termination Agreement; (6) a Valley Springs Letter; (7) By-Laws of the MTMC Corporation; (8) By-Laws of the MTMC Community Board; (9) a Closing and Incumbency Certificate; and (10) a MTMC Third Amended & Restated Articles of Incorporation. Final accounting entries made for this May 31st transaction, as well as the true-up of asset depreciation, have been made to the records of the District for the year ended June 30, 2019.

As a result of this transaction, the District has recorded a capital lease asset valued at \$6,806,628 and has recorded deferred lease revenue of \$6,000,000. The capital lease asset is being amortized over the life of the new lease agreement of 30 years at \$226,884 each year. The deferred lease revenue is a combination of deferred capital lease income, deferred facility rent and deferred utility expense income and is being recognized as income each year at various amounts each year.

NOTE I - SUBSEQUENT EVENTS

The District's management has evaluated the effect of significant subsequent events on the financial statements through January 6, 2019, the date the financial statements are issued, and determined that there are no other material subsequent events that have not been disclosed.