

Audited Financial Statements

**MARK TWAIN
HEALTH CARE DISTRICT**

June 30, 2017

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

Audited Financial Statements

MARK TWAIN HEALTH CARE DISTRICT

June 30, 2017

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Management's Discussion and Analysis

MARK TWAIN HEALTH CARE DISTRICT

June 30, 2017

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, 2017 in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financials 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, 2017 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, 2017 were:

- (1) Total assets decreased by \$1,596,208 due mainly to a \$1,871,561 decrease in the District's interest in Mark Twain Medical Center;
- (2) Cash and cash equivalents decreased slightly by \$9,172. Cash inflows totaled a net \$139,569 from operations. Net property and equipment purchases were \$87,001 and other assets capitalized were \$61,740, both of which were funded mainly by operating cash during the year;
- (3) Other receivables increased by \$148,697 due to an increase in property taxes receivable of \$21,057 and other receivables of \$127,640;
- (4) Property and equipment increased by \$52,573 as additions were \$87,001, less depreciation expense of \$34,428. The increase of \$87,001 was for the continued capitalized costs of preparing the property in Valley Springs, California for the new rural health care clinic location.
- (5) Other assets increased due mainly to the further capitalization of lease negotiation costs of \$61,740 during the year.
- (6) Accounts payable increased by \$160,275 due to the closeness of the timing of certain services towards year end which were paid subsequent to year end.

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, 2017 were:

(1) An excess of operating revenues over operating expenses of \$143,499 as compared to the prior year excess of \$22,021. Operating revenues were \$1,483,801 (an increase of \$32,016 over the prior year) while operating expenses were \$1,340,302 (a decrease of \$89,462 over the prior year);

(2) A \$1,871,561 loss in the interest in Mark Twain Medical Center for the year ended June 30, 2017 as compared to the 2016 loss of 2,529,315.

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, 2017, the District's operating cash and investments totaled \$1,756,603 as compared to \$1,765,775 in fiscal year 2016. At June 30, 2017, days cash on hand were 491 as compared to June 30, 2016 when days cash on hand were 481. The District maintains sufficient cash and cash equivalent balances to pay all short-term liabilities.

Current Assets and Liabilities

Current assets increased by \$162,168 due mainly to an increase in receivables as previously described. Accounts payable of the District increased by \$160,275 as the average pay period increased from 29 days in 2016 to 75 days in 2017. These changes also produced a current ratio of 5.67 for June 30, 2017 as compared to 8.37 for June 30, 2016.

Management's Discussion and Analysis (continued)

MARK TWAIN HEALTH CARE DISTRICT

Capital and Other Assets

Property and equipment increased by \$52,573 as additions were \$87,001 and depreciation was \$34,428. Costs continue to be capitalized towards the preparation of the property in Valley Springs, California for the new rural health care clinic location.

The District also spent an additional \$61,740 in costs towards the lease negotiations for a new long-term lease with Mark Twain Medical Center, Inc. These costs have been capitalized as an other asset for an accumulated total of \$267,146 as of June 30, 2017.

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 2017 by \$29,710 from 2016.

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, 2017 also increased by \$2,294 over the previous year.

Operating Expenses

Total operating expenses were \$1,340,302 for fiscal year 2017 compared to \$1,429,941 for the prior fiscal year. The 6% decrease is mainly due primarily to:

(1) A \$140,978 increase in professional fees due to the many issues the District is dealing with. However other professional fees have been capitalized as they pertained to the new clinic site and the negotiations of the new lease amendment with Mark Twain Medical Center, Inc.

(2) A \$92,759 decrease in program and event expenses as the District has curtailed various programs and events for the general public during the year.

(3) A \$171,291 decrease in utilities due mainly to revised accountability with Mark Twain Medical Center, Inc. and better efficiencies added during the year.

All other expenses were comparable to the prior year.

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, 2018 budget at a recent 2017 Board meeting. For fiscal year 2018, the District is budget has the following assumptions:

Property taxes were budgeted at the approximately the same levels of 2017 while rents increased slightly.

Utilities were budgeted to decrease due to the lease option exercised as described later in the financial statements.

Professional fees and other operating expenses are expected to remain fairly consistent for the year as compared to 2017

As noted in the footnotes, the District has negotiated the sixth amendment of the current lease agreement with Mark Twain Medical Center, Inc. and is currently in negotiations with the new long-term lease agreement which should be put into place in the near future.

JWT & Associates, LLP

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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, 2017 and 2016, 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, 2017 and 2016, 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 15, 2018

Balance Sheets

MARK TWAIN HEALTH CARE DISTRICT

	June 30	
	<u>2017</u>	<u>Restated 2016</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,756,603	\$ 1,765,775
Other receivables	195,541	46,844
Prepaid expenses and deposits	<u>24,468</u>	<u>1,825</u>
Total current assets	1,976,612	1,814,444
Property and equipment (capital assets):		
Land	1,189,256	1,189,256
Land improvements	150,308	150,308
Buildings and improvements	4,568,729	4,570,497
Equipment	698,156	698,156
Construction in progress	<u>356,264</u>	<u>267,495</u>
	6,962,713	6,875,712
Less accumulated depreciation	<u>(5,293,445)</u>	<u>(5,259,017)</u>
Total property and equipment	1,669,268	1,616,695
Interest in Mark Twain Medical Center	15,427,656	17,299,217
Other assets	<u>270,325</u>	<u>209,713</u>
Total assets	<u><u>\$ 19,343,861</u></u>	<u><u>\$ 20,940,069</u></u>
Liabilities and Net Position		
Current liabilities:		
Accounts payable and accrued expenses	\$ 260,173	\$ 99,898
Accrued payroll and related liabilities	9,392	6,174
Due to Mark Twain Medical Center	<u>79,097</u>	<u>110,736</u>
Total current liabilities	348,662	216,808
Net position		
Invested in capital assets	1,669,268	1,616,695
Unrestricted net position	<u>17,325,931</u>	<u>19,106,566</u>
	<u>18,995,199</u>	<u>20,723,261</u>
Total liabilities and net position	<u><u>\$ 19,343,861</u></u>	<u><u>\$ 20,940,069</u></u>

See accompanying notes and auditor's report

Statements of Revenues, Expenses and Changes in Net Position

MARK TWAIN HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2017</u>	Restated <u>2016</u>
Operating revenues:		
District taxes	\$ 935,421	\$ 905,711
Rental income	541,975	539,681
Interest and other income	<u>6,405</u>	<u>6,393</u>
Total revenues, gains and losses	1,483,801	1,451,785
Operating expenses:		
Salaries, wages and administrative benefits	68,794	33,587
Professional fees	392,908	251,930
Programs and events	74,159	166,918
Tenant services	72,662	72,662
Medical office building rent	220,659	215,243
Utilities and phone	387,973	559,264
Insurance	16,578	14,889
Repairs and maintenance	11,198	
Depreciation and amortization	35,556	85,592
Other operating expenses	<u>59,815</u>	<u>29,679</u>
Total expenses	<u>1,340,302</u>	<u>1,429,764</u>
Excess of revenues over expenses	143,499	22,021
Nonoperating revenues (expenses):		
Gain (loss) in interest in Mark Twain Medical Center	<u>(1,871,561)</u>	<u>(2,529,315)</u>
Increase (decrease) in net position	(1,728,062)	(2,507,294)
Net position at the beginning of the year	<u>20,723,261</u>	<u>23,230,555</u>
Net position at the end of the year	<u>\$ 18,995,199</u>	<u>\$ 20,723,261</u>

Statements of Cash Flows

MARK TWAIN HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2017</u>	Restated <u>2016</u>
Cash flows from operating activities:		
Cash received from district taxes	\$ 914,364	\$ 907,346
Cash received from rental & other activities	316,439	442,663
Cash paid for salaries, wages and administrative benefits	(65,576)	(28,682)
Cash paid for suppliers and outside vendors	<u>(1,025,658)</u>	<u>(1,206,371)</u>
Net cash provided by operating activities	139,569	114,956
Cash flows from financing and investing activities:		
Purchases of property and equipment, net of disposals	(87,001)	(650,374)
Change in other assets	<u>(61,740)</u>	<u>(85,105)</u>
Net cash used in financing activities	<u>(148,741)</u>	<u>(735,479)</u>
Net increase in cash and cash equivalents	(9,172)	(620,523)
Cash and cash equivalents at beginning of year	<u>1,765,775</u>	<u>2,386,298</u>
Cash and cash equivalents at end of year	<u>\$ 1,756,603</u>	<u>\$ 1,765,775</u>
 Reconciliation of changes in net position to net cash provided by operating activities		
Excess of revenues over expenses	\$ 143,499	\$ 22,021
Adjustments to reconcile changes in net position to net cash provided by operating activities:		
Depreciation and amortization	35,556	85,592
Changes in operating assets and liabilities:		
District tax and other receivables	(148,697)	2,525
Prepaid expenses	(22,643)	5,206
Accounts payable and accrued expenses	160,275	26,346
Accrued payroll and related liabilities	3,218	4,905
Due to Mark Twain Medical Center	<u>(31,639)</u>	<u>(31,639)</u>
Net cash provided by operating activities	<u>\$ 139,569</u>	<u>\$ 114,956</u>

Notes to Financial Statements

MARK TWAIN HEALTH CARE DISTRICT

June 30, 2017

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. Effective January 1, 1990, the District obtained regulatory approval to lease the hospital facilities to Mark Twain Medical Center (the Corporation), a nonprofit public benefit corporation organized without membership in 1987, under the California Nonprofit Public Benefit Corporation Law for the purpose of leasing the hospital facilities from the District. In January 1990, the Corporation entered into a management agreement with St. Joseph's Regional Health System ("SJRHS") of Stockton, California, an affiliate of Dignity Health ("DH"). As of September 2001, the management agreement was amended to replace SJRHS with DH, as SJRHS had been dissolved as part of a CHW reorganization. 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 purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of 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, 2017 and 2016, 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.

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, 2017 and 2016, the District had deposits invested in a bank of \$1,756,603 and \$1,765,775, 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 provides the District with accounting and administrative services for which the Corporation charges a fee to cover the salaries and benefits of the personnel. This fee totaled \$72,662 and \$72,662 for the years ended June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, the District had \$79,097 and \$110,736, respectively, in unamortized prepaid rent income resulting from the redemption of the 1986 Bonds made by the Corporation. This amount is being amortized over the period of the lease agreement.

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, 2017 and 2016 were \$310,039 and \$310,039, respectively.

The hospital facility lease expires on December 31, 2019. The 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 outlined in Note D, the Corporation repaid the Series 1986A Bond debt of the District in exchange for a prepayment of rent originally intended to fund the District's principal debt service. As of June 30, 2005, the prepaid rent transactions have completed their term.

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, 2017 and 2016 regarding this agreement were \$220,659 and \$215,243, 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 \$217,159 and \$214,815 for the years ended June 30, 2017 and 2016, respectively.

Notes to Financial Statements (continued)

MARK TWAIN HEALTH CARE DISTRICT

NOTE D - DEBT BORROWINGS

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 is being be amortized over the life of the lease agreement with the Corporation.

NOTE E - INTEREST IN MARK TWAIN MEDICAL CENTER

In an agreement between Mark Twain Medical Center (the Corporation) and Mark Twain Health Care District (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, shall be distributed to Dignity Health, a California nonprofit public benefit corporation. The other 50% shall be distributed to the District. As a result of this agreement, the District has recorded \$15,427,656 and \$17,299,217 as of June 30, 2017 and 2016, respectively, as its portion of its interest in the Corporation. These amounts represent the 50% of the net difference between the assets and the liabilities of the Corporation as of its June 30, 2017 and 2016 audited financial statements.

NOTE F - PENDING USDA DEBT BORROWINGS

On September 28, 2015, the District signed a "Letter of Condition" with the United States Department of Agriculture (USDA) which therefore allows the District to continue towards the process of finalizing the issuance of \$6,782,000 of debt borrowing from the USDA Rural Development's Community Facilities Program. The proceeds from this forthcoming borrowing will be used to fund the construction of a new rural health care clinic in Valley Springs, California. Additional funding will be obtained from District operations (\$961,146) and from Mark Twain Medical Center (\$1,200,000) for a total project costs of \$8,943,146. The District's management anticipates issuance of this loan sometime during the next fiscal year.

Notes to Financial Statements (continued)

MARK TWAIN HEALTH CARE DISTRICT

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2017 and 2016 were comprised of the following:

	<u>Balance at June 30, 2016</u>	<u>Transfers & Additions</u>	<u>Disposals & Retirements</u>	<u>Balance at June 30, 2017</u>
Land and land improvements	\$ 1,339,564			\$ 1,339,564
Buildings and improvements	4,570,497		(1,768)	4,568,729
Equipment	698,156			698,156
Construction-in-progress	<u>267,495</u>	<u>88,769</u>		<u>356,264</u>
Totals at historical cost	6,875,712	88,769	(1,768)	6,962,713
Less accumulated depreciation for:				
Land and land improvements	(129,625)	(2,386)		(132,011)
Buildings and improvements	(4,444,257)	(26,132)		(4,470,389)
Equipment	<u>(685,135)</u>	<u>(5,910)</u>		<u>(691,045)</u>
Total accumulated depreciation	<u>(5,259,017)</u>	<u>(34,428)</u>		<u>(5,293,445)</u>
Total property and equipment, net	<u>\$ 1,616,695</u>	<u>\$ 54,341</u>	<u>\$ (1,768)</u>	<u>\$ 1,669,268</u>

	<u>Balance at June 30, 2015</u>	<u>Transfers & Additions</u>	<u>Disposals & Retirements</u>	<u>Balance at June 30, 2016</u>
Land and land improvements	\$ 884,615	\$ 903,112	\$ (448,163)	\$ 1,339,564
Buildings and improvements	4,570,497			4,570,497
Equipment	698,156			698,156
Construction-in-progress	<u>73,199</u>	<u>194,296</u>		<u>267,495</u>
Totals at historical cost	6,226,467	1,097,408	\$ (448,163)	6,875,712
Less accumulated depreciation for:				
Land and land improvements	(126,478)	(3,147)		(129,625)
Buildings and improvements	(4,370,522)	(73,735)		(4,444,257)
Equipment	<u>(677,553)</u>	<u>(7,582)</u>		<u>(685,135)</u>
Total accumulated depreciation	<u>(5,174,553)</u>	<u>(84,464)</u>		<u>(5,259,017)</u>
Total property and equipment, net	<u>\$ 1,051,914</u>	<u>\$ 1,012,944</u>	<u>\$ (448,163)</u>	<u>\$ 1,616,695</u>

MARK TWAIN HEALTH CARE DISTRICT

NOTE H - COMMITMENTS AND CONTINGENCIES

Construction-in-Progress: As of June 30, 2017 the District has recorded \$356,264 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, 2017 is approximately \$8,600,000.

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, 2017 and 2016, was \$220,659 and \$215,243, respectively. Future minimum lease payments for the succeeding years under these leases as of June 30, 2017, 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, 2017 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 statutes 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.

NOTE I - PRIOR PERIOD ADJUSTMENT

During the year it came to the attention of the District that prior year's depreciation expense had been overstated by an accumulated amount through June 30, 2015 by \$35,247. In addition during the year ended June 30, 2016, depreciation expense had been overstated by \$177. As a result the accumulated depreciation was restated from \$5,209,800 at June 30, 2015 to \$5,174,553, a difference of \$35,247 and the net position was adjusted accordingly. Also the June 30, 2016 net income was restated to increase by \$177 from \$21,844 to \$22,021 to account for the error in depreciation expense. Again, net position was adjusted accordingly so that the net position as of July 1, 2016 was correctly stated at \$20,723,261 from \$20,687,837, an increase of \$35,424 or the combination of the \$35,247 error through June 30, 2015 and the \$177 error for the June 30, 2016 fiscal year.

MARK TWAIN HEALTH CARE DISTRICT

NOTE J - SUBSEQUENT EVENTS

On December 5, 2017 the District exercised a 30 day termination clause with Paschal Roth, a public relations firm. The estimated expense for the contract was \$68,000.

On December 15, 2017 the District terminated a contract with Wipfli HFS for a fair market evaluation of the Mark Twain Medical Center Corporation. The expense for the contract was estimated at \$20,000.

On December 16, 2017 the District's outside attorney contracted with VMG Health for a fair market evaluation of the Mark Twain Medical Center Corporation. The District agreed to pay for the contracted work, not to exceed \$50,000.

Lease Termination: The District, as noted in this report, has a 30 year lease with Mark Twain Medical Center Corporation. That lease expires on December 31, 2019. The District has been negotiating a new lease and a wind-up of the current lease with Dignity Health. Because Dignity Health has substantial reserve powers with their management agreement contract with the Corporation, they have been representing the Corporation. Those negotiations have included a potential early termination of the current lease in 2018. Details of the wind-up are available on the District website and include modifications to the current lease respective to dissolution.

New Lease: The District has been negotiating a new 30-year lease with Dignity Health, who is representing the Mark Twain Medical Center Corporation. The lease will entail the District's potential buy back of 50% of assets from the Corporation and then lease all assets back to the Corporation (buy-back lease transaction). The proposal would provide a one-time payment to the District by Dignity Health for the District's 49% operating interest, while the District retains a 1% interest in the Corporation. The one-time cash payment to the District is estimated to be between \$1 to \$8 million. The District in return would receive monthly rent payments estimated to be between \$85,000 to \$105,000 per month.

The new proposed lease will have to undergo consideration by the District Board for approval. If approved, it would then have to come before the voters of Calaveras County as a ballot election measure and requires a simple majority of those who vote. That election is currently projected to take place in the California June Primary election on June 5, 2018.

The District's management has evaluated the effect of significant subsequent events on the financial statements through January 15, 2018, the date the financial statements are issued, and determined that there are no other material subsequent events that have not been disclosed.