Audited Financial Statements

MARK TWAIN
HEALTH CARE DISTRICT

June 30, 2021

JWT & Associates, LLP
Certified Public Accountants

Audited Financial Statements

MARK TWAIN HEALTH CARE DISTRICT

June 30, 2021

Management's Discussion and Analysis

MARK TWAIN HEALTH CARE DISTRICT

June 30, 2021

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, 2021 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, 2021 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: statement of net position; 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 statement of net position 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 statement of net position and the statement of revenues, expenses and changes in net position for the year ended June 30, 2021 were:

(1) Total assets decreased by $2,400,5906 due mainly to decrease of cash and cash equivalents by $1,770,142 as the Clinic is still considered in a "start-up" mode and the reimbursement has yet to be increased. In addition the COVID pandemic caused lower patient volumes as it decreased both (1) a patient's willingness to seek healthcare and (2) the District's ability to maintain a full staff;

(2) Patient accounts receivable as of June 30, 2021 were $350,516, net of estimated related allowances of $143,501 to arrive at a net patient accounts receivable of $207,015;

(3) Property and equipment additions were $402,873 due to the continued improvements to the Clinic. Depreciation expense was $770,825. With the combined additions and depreciation, property and equipment showed a net decrease by $367,952

(4) Total debt borrowings were $7,094,118 as the District continued to draw down on their USDA loan in the amount of $862,813 during the year in order to continue to fund improvements to the Clinic in Valley Springs.

(5) As to the 30-year lease agreement, for the year ended June 30, 2021, the District recorded approximately $1.1 million in lease income, offset by approximately $800,000 in utilities expense, all according to the terms of the new lease which began in fiscal year 2019.

(6) The decrease in net position for the year ended June 30, 2021 was $(1,313,678) as compared to the prior year decrease in net position of $(1,415,963). This was due mainly to depreciation and amortization expense of $794,673 for the year and the added expenditures of Clinic in Valley Springs.

(7) The District recorded grant income for the year in the amount of $245,713 due mainly to the receipt of COVID related grants and other related supplemental payments.

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, 2021, the District's operating cash and investments totaled $11,839,677 as compared to $13,609,819 in fiscal year 2020. At June 30, 2021, days cash on hand were 963 as compared to June 30, 2020 when days cash on hand were 1,309. 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 decreased by $1,770,046 due mainly to the previously mentioned decrease in cash and cash equivalents. Current liabilities decreased by $601,985 due mainly to the decrease in construction payables. These changes produced a current ratio of 24.37 for June 30, 2021 as compared to 12.65 for June 30, 2020.

Capital and Other Assets

Property and equipment decreased by $367,952 as additions were $402,873, less depreciation expense of $770,825. Continued improvements are being made to the Clinic in Valley Springs.

The District has recorded approximately $6.7 million in other assets, offset by approximately $3.5 million in deferred revenues as of June 30, 2021, all associated with the 30 year leasing of the Hospital facilities by Dignity. As a result, these costs were amortized which realized an approximate $$1.1 million in lease income for the lease of the Hospital facilities.

District Revenues and Rental Income

The District receives approximately 35% 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 2021 by $107,332 from 2020.

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, 2021 increased slightly by $12,050 over the previous year.

Operating Expenses

Total operating expenses were $5,280,520 for fiscal year 2021 compared to $4,493,073 for the prior fiscal year. The increase is mainly due primarily to:

(1) A $624,439 increase in salaries, wages and employee benefits due to the hiring of new staff for the operations of the new Clinic.

(2)A $204,649 increase in professional fees due to the increased patient volumes in the Clinic.

(3) A $190,965 increase in supples, again due to the added patient volumes in the Clinic.

(4) A $105,848 increase in depreciation due to the added Clinic improvements.

(5) A $465,163 decrease in donations and program expenses for local community programs as the year’s operations were geared towards increased Clinic activity.

Other changes in expenses over the prior year were considered minor.

Economic Factors and Next Fiscal Year's Budget

The District's board approved the fiscal year ending June 30, 2022 budget at a recent Board meeting. For fiscal year 2022, the District is budget has the following assumptions:

Property taxes were budgeted at the approximately the same levels of 2021 while rents increase slightly.

Professional fees and other operating expenses are expected to remain fairly consistent for the year as compared to 2021

As noted already, the District opened the new rural health care clinic in Valley Springs which it began operating in October, 2019. Planning is underway for expanded operations of the Clinic and the establishment of reasonable reimbursement rates from both Medicare and Medi-Cal for patient services rendered.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact revenues. Other financial impacts could occur, though such potential impact is unknown at this time.

This is a challenging time not only for our country but also for our community. The District takes the safety and health of our community and staff very seriously. The District has chosen to take actions to limit the spread of this virus. Therefore, the District has made the tough decision to cancel or postpone programs in several areas.

Management Comments

The Covid-19 pandemic has created worldwide economic disruption that, in turn, has caused significant financial impact for healthcare in general, and for the Mark Twain Health Care District. The District expenses and lost revenues related to Covid during this audit period totaled over $500,000.

The District's primary enterprise is the Valley Springs Heath & Wellness Center, a California safety-net clinic that was substantially impacted by the pandemic. The clinic was on a very positive patient encounter trajectory prior to March 2020 that then significantly dropped in 2020-2021 relative to the state and federal instructions for people to isolate at home. Employees and providers were required to wear personal protective equipment that impaired appointment workflow and efficiency. Patients had to be screened for Covid infections at the front door, which required additional labor, and slowed down the patient appointment process. Several providers and employees were quarantined at home up to 14 days for Covid or Covid-like infections, in conformance with CDC and state guidelines. All of these changes negatively affected clinic and District finances.

Not only was there a material impact on patient encounters, there were also significant cost increases related to Covid supplies, Covid testing, Covid vaccinations and Covid treatments. While some of the extra costs and lost revenues were off-set by federal and state grants, many were not.

Management is projecting that there could be additional losses in the following fiscal year related to the pandemic. However, there is too much uncertainty about the Covid pandemic to provide financial projections with any confidence. New Covid variants may emerge, or the pandemic could be partially resolved through transition to an endemic. Losses could also be offset by additional federal or state assistance.

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 statements of net position as of June 30, 2021 and 2020, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States and with 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.

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 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, 2021 and 2020, 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.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

JWT & Associates, LLP

Fresno, California
January 21, 2022

Statements of Net Position

MARK TWAIN HEALTH CARE DISTRICT

	June 30	
	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	$ 11,839,677	$ 13,609,819
Patient accounts receivable	207,015	136,124
Other receivables	98,807	191,462
Prepaid expenses and other current assets	21,860	
Total current assets	12,167,359	13,937,405
Property and equipment	8,466,691	8,834,643
Interest in Mark Twain Medical Center	439,738	463,527
Other assets	6,666,689	6,905,492
Total assets	$ 27,740,477	$ 30,141,067
Liabilities and Net Position		
Current liabilities:		
Current maturities of debt borrowings	$ 147,000	$ 146,000
Accounts payable and accrued expenses	221,578	880,838
Accrued payroll and related liabilities	105,590	74,511
Deferred grant revenues	25,196	
Total current liabilities	499,364	1,101,349
Deferred lease revenue	3,498,520	4,699,260
Debt borrowings	6,947,118	6,231,305
Total liabilities	10,945,002	12,031,914
Net position		
Invested in capital assets	1,372,573	2,457,338
Unrestricted net position	15,422,902	15,651,815
Total net position	16,795,475	18,109,153
Total liabilities and net position	$ 27,740,477	$ 30,141,067

Statements of Revenues, Expenses and Changes in Net Position

MARK TWAIN HEALTH CARE DISTRICT

	Year Ended June 30	
	2021	2020
Operating revenues:		
Net patient service revenues	$ 1,376,736	$ 217,061
District taxes	1,233,836	1,126,504
Hospital lease income	1,090,174	1,095,293
Rental income from medical office buildings	232,828	220,778
Grant revenues	245,713	
Interest and other investment income	39,321	390,802
Other operating income	19,978	9,000
Total revenues, gains and losses	4,238,586	3,059,438
Operating expenses:		
Salaries and wages	1,286,739	782,021
Employee benefits	248,211	128,490
Professional fees	1,255,082	1,050,433
Supplies	372,829	181,864
Purchased services and repairs	33,314	54,520
Donations, programs and events		465,163
Medical office building rent	268,887	240,514
Utilities and phone	806,894	710,354
Insurance	42,273	49,893
Depreciation and amortization	794,673	688,825
Other operating expenses	171,618	140,996
Total expenses	5,280,520	4,493,073
Excess of revenues over expenses (expenses over revenues)	(1,041,934)	(1,433,635)
Nonoperating revenues (expenses):		
Interest expense	(247,955)	(158,161)
Gain (loss) in interest in Mark Twain Medical Center	(23,789)	175,833
Total nonoperating revenues (expenses)	(271,744)	17,672
Increase (decrease) in net position	(1,313,678)	(1,415,963)
Net position at the beginning of the year	18,109,153	19,525,116
Net position at the end of the year	$ 16,795,475	$ 18,109,153

Statements of Cash Flows

MARK TWAIN HEALTH CARE DISTRICT

	Year Ended June 30 2021	2020
Cash flows from operating activities:		
Cash received from patients and third parties on behalf of patients	$ 1,331,041	$ 80,937
Cash received from taxes, rents & other activities	1,956,860	1,981,211
Cash paid for salaries, wages and administrative benefits	(1,503,871)	(850,019)
Cash paid for suppliers and outside vendors	(3,879,972)	(2,346,922)
Net cash provided by (used in) operating activities	(2,095,942)	(1,134,793)
Cash flows from financing and investing activities:		
Purchases of property, equipment and other	(414,802)	(3,733,968)
Proceeds from debt borrowings	862,813	2,663,521
Repayments of debt borrowings	(146,000)	(133,000)
Change in Mark Twain Medical Center	23,789	(175,833)
Net cash provided by (used in) financing and investing activities	325,800	(1,379,280)
Net increase (decrease) in cash and cash equivalents	(1,770,142)	(2,514,073)
Cash and cash equivalents at beginning of year	13,609,819	16,123,892
Cash and cash equivalents at end of year	$ 11,839,677	$ 13,609,819

Reconciliation of changes in net position to net cash provided by operating activities		
Increase (decrease) in net position	$ (1,313,678)	$ (1,415,963)
Adjustments to reconcile increase (decrease) in net position to net cash provided by operating activities:		
Depreciation and amortization	794,673	688,825
Changes in operating assets and liabilities:		
Patient accounts receivable	(70,891)	(136,124)
Other receivables	92,655	58,295
Prepaid expenses	(21,860)	
Capital lease	226,884	105,446
Accounts payable and accrued expenses	(659,260)	704,976
Accrued payroll and related liabilities	31,079	60,492
Deferred grant revenues	25,196	
Deferred lease revenue and other	(1,200,740)	(1,200,740)
Net cash provided by (used in) operating activities	$ (2,095,942)	$ (1,134,793)

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

***Reporting Entity*:** Mark Twain Health Care District (the District) is a political subdivision of the State of California 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.

Also during fiscal year 2020, the District opened a rural health care clinic in Valley Springs, California. The District operates the outpatient clinic in order to help provide health care services to residents who primarily reside in the local geographic area.

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 adopted 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*. These statements establish financial reporting standards for government entities, and relates to presentation and disclosure requirements.

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.

Investments: Short-term investments are funds invested local banks. These investments are measured at fair value at June 30, 2021 and 2020. Investment income or losses (including realized and unrealized gains and losses on investments, interest and dividends) are included in operating revenues under interest and other investment income.

Patient Accounts Receivable: Patient accounts receivable consist of amounts owed by various governmental agencies, insurance companies and private patients. The District manages its receivables by regularly reviewing the accounts, inquiring with respective payors as to collectibility and providing for allowances on their accounting records for estimated contractual adjustments and uncollectible accounts. Significant concentrations of patient accounts receivable are discussed further in the footnotes

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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Capital Assets: Capital assets consist of property and equipment and 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 3 to 40 years, depending upon the capital asset classification.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences: The District's employees earn vacation benefits at varying rates depending on years of service. Employees also earn sick leave benefits. 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 (PTO) as of June 30, 2021 and 2020 was $34,464 and $18,202, respectively.

Net Position: Net position can 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 those net position 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 net position that does not meet the definition or criteria of the previous two categories.

The District's reserve policy provides for the designation of unrestricted net position to fund (1) replacement and major repairs for District physical assets; (2) replacement and upgrades of information technology (IT) performance systems; (3) hardware and software; (4) designated projects, programs or other special uses requiring additional monetary support; (5) capital improvements; and (6) maintain standard operational sustainability in periods of economic uncertainty.

Operating Revenues and Expenses: The District's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the District's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Nonoperating revenues and expenses are those transactions not considered directly linked to providing health care services.

Net Patient Service Revenues: Net patient service revenues are reported in the period at the estimated net realized amounts from patients, third-party payors and others including estimated retroactive adjustments under reimbursement agreements with third-party programs. Normal estimation differences between final reimbursement and amounts accrued in previous years are reported as adjustments of current year's net patient service revenues.

Charity Care: The District accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the District. Essentially, these policies define charity services as those services for which no payment is anticipated. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenues. Services provided are recorded as gross patient service revenues and then written off as an adjustment to net patient service revenues

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition: As previously stated, net patient service revenues are reported at amounts that reflect the consideration to which the District expects to be entitled in exchange for patient services. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of third-party payor audits, reviews, and investigations. Generally, the District bills the patients and third-party payors several days after the patient receives healthcare services at the District's rural health clinic. Revenue is recognized as services are rendered.

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. Payment arrangements include prospectively determined rates per day, discharge or visit, reimbursed costs, discounted charges and per diem payments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Gifts of long-lived assets such as land, buildings, or equipment are reported as net assets without donor restrictions unless explicit donor stipulations specify how the donated asset must be used. Gifts of long-lived assets with explicit donor restrictions that specify how the asset is to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived asset is placed in service. Cash received in excess of revenue recognized is deferred revenue.

Contributions are recognized as revenue when they are received or unconditionally pledged. Donor stipulations that limit the use of the donation are recognized as contributions with donor restrictions. When the purpose is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from donor restrictions. Donor restricted contributions whose restriction expire during the same fiscal year are recognized as net assets without donor restrictions. Absent donor imposed restrictions, the District records donated services, materials, and facilities as net assets without donor restrictions.

From time to time, the District receives grants from various governmental agencies and private organizations. Revenues from grants are recognized when all eligibility requirements, including time requirements are met. Grants 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.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

District Tax Revenues: The District receives approximately 35% 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.

Statements of Cash Flows and Reclassifications: 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. Certain reclassifications in the grouping of accounts have been made to the June 30, 2020 presentation in order to conform to the June 30, 2021 presentation.

NOTE B - BANK DEPOSITS

Collateral: As of June 30, 2021 and 2020, the District had deposits invested in a bank of $11,439,677 and $13,209,418, 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.

NOTE C - NET PATIENT SERVICE REVENUES

The District had agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Payments for rural health care services rendered to Medicare beneficiaries are paid on an interim rate during the year with final settlement based on cost report submission.

Medi-Cal: For Medi-Cal, services are paid on a prospective payment system (PPS) rate for rural health care services rendered to Medi-Cal beneficiaries with final settlement based on the PPS reconciliation and audit process conducted by the State of California.

Other: Payments for services rendered to other than Medicare and Medi-Cal patients are based on established rates or on agreements with certain commercial insurance companies, health maintenance organizations and preferred provider organizations which provide for various discounts from established rates.

Net patient service revenues percentages for the years ended June 30, 2021 and 2020 are summarized below:

	2021	2020
Medicare	23%	31%
Medi-Cal (traditional and managed care)	57%	43%
Other third party payors	19%	25%
Self pay and other	1%	1%
Gross patient service revenues	100%	100%
Less deductions from revenue and related allowances	(51%)	(81%)
Net patient service revenues	49%	19%

Medicare and Medi-Cal revenue accounts for approximately 74% of the District's net patient revenues for each year. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

NOTE D - CONCENTRATION OF CREDIT RISK

Patient Accounts Receivable - The District grants credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the District and management does not believe that there are any credit risks associated with these governmental agencies. Contracted and other patient accounts receivable consist of various payors including individuals involved in diverse activities, subject to differing economic conditions and do not represent any concentrated credit risks to the District. Concentration percentages of patient accounts receivable at June 30, 2021 and 2020 were as follows:

	2021	2020
Medicare	15%	39%
Medi-Cal (traditional and managed care)	56%	41%
Other third party payors	19%	17%
Self pay and other	10%	3%
Gross patient accounts receivable	100%	100%

Financial Instruments: Financial instruments, potentially subjecting the District to concentrations of credit risk, consist primarily of bank deposits in excess of the Federal Deposit Insurance Corporation (FDIC) limits of $250,000. Although deposits exceed the limit in certain bank accounts, management believes that the risk of loss is minimal due to the high financial quality of the bank with which the District does business. Management further believes that there is no risk of material loss due to concentration of credit risk with regards to investments as the District has no investments in equity funds, closed-end funds, exchange-traded products, or other perceived “at risk” alternatives as of June 30, 2021 and 2020.

NOTE E - 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 years ended June 30, 2021 and 2020, this arrangement resulted in an interest loss of $(23,789) and an interest gain of $175,833, respectively.

NOTE F - TRANSACTIONS BETWEEN RELATED ORGANIZATIONS

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 year ended June 30, 2021 and 2020 was $156,081 and $151,907, respectively. During the year ended June 30, 2019, a new lease agreement was signed with other arrangements as disclosed in Footnote G.

The former hospital facility lease was renegotiated during the year ended June 30, 2018. 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 G discloses the new lease arrangement.

The District has entered into a land and medical office building (MOB) lease agreement with the Arnaudo Brothers whereas they lease the land and the MOB from them. Lease expense for the years ended June 30, 2021 and 2020 under this agreement were $268,887 and $240,514, respectively. The District then subleases the land and the portions of the MOB to the San Andreas Medical and Professional Office (SAMPO) organization. The District also has subleased portions of the MOB to the Stockton Cardiology Medical Group and others, and to the Corporation. Lease revenues under these subleasing arrangements and other arrangements were approximately $210,000 and $215,000 for the years ended June 30, 2021 and 2020, respectively.

NOTE G - DIGNITY HEALTH LEASE

On May 31, 2020, 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 Pre-lease 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 H - PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2021 and 2020 were comprised of the following:

	Balance at June 30, 2020	Transfers & Additions	Disposals & Retirements	Balance at June 30, 2021
Land and land improvements	$ 2,963,991	$ 66,835		$ 3,030,826
Buildings and improvements	10,207,768	236,583		10,444,351
Equipment	1,557,105	54,255		1,611,360
Construction-in-progress	3,337	45,200		48,537
Totals at historical cost	14,732,201	402,873		15,135,074
Less accumulated depreciation for:				
Land and land improvements	(272,003)	(186,642)		(458,645)
Buildings and improvements	(4,840,939)	(452,128)		(5,293,067)
Equipment	(784,616)	(132,055)		(916,671)
Total accumulated depreciation	(5,897,558)	(770,825)		(6,668,383)
Total property and equipment, net	$ 8,834,643	$ (367,952)	$	$ 8,466,691

	Balance at June 30, 2019	Transfers & Additions	Disposals & Retirements	Balance at June 30, 2020
Land and land improvements	$ 1,339,564	$ 1,624,427		$ 2,963,991
Buildings and improvements	4,568,729	5,639,039		10,207,768
Equipment	698,156	858,949		1,557,105
Construction-in-progress	4,391,785	(4,388,448)		3,337
Totals at historical cost	10,998,234	3,733,967		14,732,201
Less accumulated depreciation for:				
Land and land improvements	(136,783)	(135,220)		(272,003)
Buildings and improvements	(4,510,688)	(330,251)		(4,840,939)
Equipment	(694,619)	(89,997)		(784,616)
Total accumulated depreciation	(5,342,090)	(555,468)		(5,897,558)
Total property and equipment, net	$ 5,656,144	$ 3,140,298	$	$ 8,834,643

NOTE I - DEBT BORROWINGS

On August 8, 2020, the District's Board of Directors adopted Resolution 2020-11 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, 2021 and 2020, debt borrowings are as follows:

	2021	2020
Mark Twain Health Care District Certificates of Participation, Series A (2020 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:	$ 6,528,000	$ 6,355,305
Mark Twain Health Care District Certificates of Participation, Series B (2020 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:	566,118	22,000
	7,094,118	6,377,305
Less current maturities of debt borrowings	(147,000)	(146,000)
	$ 6,947,118	$ 6,231,305

Future principal maturities for debt borrowings for the next succeeding five years are $147,000 in 2022; $146,000 in 2023; $163,000 in 2024; $168,000 in 2025; and $175,000 in 2026.

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 ended June 30, 2019.

NOTE J - COMMITMENTS AND CONTINGENCIES

Construction-in-Progress: As of June 30, 2021 the District has recorded $48,537 as construction-in-progress representing cost capitalized towards the a pharmacy project. Future costs to complete this project as of June 30, 2021 are not considered material. During the years ended June 30, 2021 and 2020, interest expense of $-0- and $52,720, respectively, were capitalized into the building of the new rural health clinic which came on line in October, 2019 at a total cost of land, building and equipment of approximately $9 million.

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, 2021 and 2020, was $268,887 and $240,514, respectively. Future minimum lease payments for the succeeding years under these leases as of June 30, 2021, 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, 2021 will be resolved without material adverse effect on the District's future financial position, results from operations or cash flows.

Medical Malpractice Insurance: The District maintains commercial malpractice liability insurance coverage under a claims made and reported policy covering losses up to $1 million per claim and $3 million in the annual aggregate, with a per claim deductible of $5,000. The District plans to maintain the insurance coverage by renewing its current policy, or by replacing it with equivalent insurance.

Workers Compensation Program: The District is a participant in the Beta Risk Management Authority (the Fund) which administers a self-insured worker's compensation plan for participating entity employees of its member entities. The District pays premiums to the Fund which are adjusted annually. If participation in the Fund is terminated by the District, the District would be liable for its share of any additional premiums necessary for final disposition of all claims and losses covered by the Fund.

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.

NOTE K -INVESTMENTS

The District's investment balances and average maturities were as follows at June 30, 2021 and 2020:

		Investment Maturities in Years		
As of June 30, 2021	Fair Value	Less than 1	1 to 5	Over 5
Money market & ST investments	$ 11,013,551	$ 11,013,551		
Total investments	$ 11,013,551	$ 11,013,551	$ -0-	$ -0-

		Investment Maturities in Years		
As of June 30, 2020	Fair Value	Less than 1	1 to 5	Over 5
Money market & ST investments	$ 12,726,413	$ 12,726,413		
Total investments	$ 12,726,413	$ 12,726,413	$ -0-	$ -0-

The District's investments are reported at fair value as previously discussed. The District's investment policy allows for various forms of investments generally set to mature within a few months. Policies generally identify certain provisions which address interest rate risk, credit risk and concentration of credit risk.

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. One of the ways an entity manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a position of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash

flow and liquidity needed for District operations. 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.

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. Generally an entity's investment policy for corporate bonds and notes would be to invest in companies with total assets in excess of $500 million and having a "A" or higher rating by agencies such as Moody's or Standard and Poor's.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer), an entity would not be able to recover the value of its investment or collateral securities that are in the possession of another party. An entity's investments are generally held by broker-dealers or in the case of many healthcare district's, in government-pooled short-term cash equivalents such as mutual funds.

NOTE K -INVESTMENTS (continued)

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. An entity's investment policy generally allows for different concentrations in selected investment portfolios such as government-backed securities, which are deemed to be lower risk.

NOTE L - SUBSEQUENT EVENTS

The District's management has evaluated the effect of significant subsequent events on the financial statements through January 21, 2022, the date the financial statements are issued, and determined that there are no other material subsequent events that have not been disclosed.

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Independent Auditors Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Mark Twain Health Care District (the District) as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated January 21, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

JWT & Associates, LLP

Fresno, California
January 21, 2022

See accompanying notes and auditor's report