REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS
WITH REQUIRED SUPPLEMENTARY INFORMATION
AND OTHER SUPPLEMENTARY INFORMATION

ANTELOPE VALLEY HEALTHCARE DISTRICT

June 30, 2018 and 2017

MOSSADAMS

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Report of Independent Auditors

To the Board of Directors
Antelope Valley Healthcare District

Report on the Financial Statements

We have audited the accompanying financial statements of Antelope Valley Healthcare District (the "District") as of and during the fiscal years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Antelope Valley Healthcare District as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows thereof during the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 13 and the schedule of changes in the net pension liability and related ratios and schedule of contributions for the defined benefit pension plan, on pages 54 through 55, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise Antelope Valley Healthcare District's basic financial statements. The schedules on pages 56 through 61 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Moss Adams LLP

Irvine, California
November 16, 2018

This section of Antelope Valley Healthcare District's (the "District") financial statements presents management's discussion and analysis of the financial activities of the District during the fiscal years ended June 30, 2018, 2017, and 2016. We encourage the reader to consider the information presented here in conjunction with the financial statements as a whole.

Introduction to the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's audited financial statements. This annual report is prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The required financial statements include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. Notes to the financial statements, supplementary detail and/or statistical information, and this summary support these statements. All sections must be considered together to obtain a complete understanding of the financial picture of the District.

Statement of net position – This statement includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting as of the statement date. The difference between these classifications is represented as "Net Position"; this section of the statement identifies major categories of restrictions on these assets and reflects the overall financial position of the District as a whole.

Statement of revenues, expenses, and changes in net position – This statement presents the revenues earned and the expenses incurred during the fiscal year using the accrual basis of accounting. Under the accrual basis, all increases or decreases in net position are reported as soon as the underlying event occurs, regardless of the timing of the cash flow. Consequently, revenues and/or expenditures reported during this fiscal year may result in changes to cash flows in a future period.

Statement of cash flow – This statement reflects inflows and outflows of cash, summarized by operating, capital, financing, and investing activities. The direct method was used to prepare this information, which means gross rather than net amounts were presented for the fiscal year's activities.

Notes to the financial statements – This additional information is essential to a full understanding of the data reported in the financial statements.

The District is a political subdivision of the state of California organized and existing under the provisions of the Local Health Care District Law of the state of California. The District is located in Lancaster, California, and is governed by a five-member Board of Directors elected by voters within the District. Unless otherwise indicated, amounts presented in management's discussion and analysis are in thousands.

The District's Net Position

The District's net position represents the difference between its assets and deferred outflows of resources less liabilities and deferred inflows of resources as reported in the statements of net position. The District's net position increased by $25,548 or 24.3% in 2018 over 2017.

Table 1: Assets, Liabilities and Net Position as of June 30 (in thousands):

	2018	2017	2016
ASSETS			
Patient accounts receivable, net	$ 54,640	$ 56,770	$ 56,510
Other current assets	127,725	101,412	90,554
Capital assets, net	183,001	161,584	163,201
Other noncurrent assets	99,935	113,634	66,357
Total assets	465,301	433,400	376,622
DEFERRED OUTFLOWS OF RESOURCES	15,829	25,082	25,152
Total assets and deferred outflows of resources	$ 481,130	$ 458,482	$ 401,774
LIABILITIES			
Long-term debt (including current portion)	$ 144,442	$ 151,365	$ 132,847
Other current and noncurrent liabilities	197,534	198,795	191,132
Total liabilities	341,976	350,160	323,979
DEFERRED INFLOWS OF RESOURCES	8,356	3,072	4,131
NET POSITION			
Net investment in capital assets	64,282	47,460	52,869
Restricted, expendable	1,259	1,318	201
Restricted, nonexpendable	704	653	522
Unrestricted	64,553	55,819	20,072
Total net position	130,798	105,250	73,664
Total liabilities, deferred inflows of resources and net position	$ 481,130	$ 458,482	$ 401,774

The District's Net Position (continued)

The following is an explanation of the significant changes between fiscal years as show in Table 1:

Changes from fiscal 2017 to 2018 – *Patient accounts receivable, net* decreased $2,130 or 3.8% from 2017 to 2018 mainly due to the finalizing of contracts with multiple payers resulting in increased payments on certain aged accounts. Charity care write-offs totaled $9,969 in 2018, a decrease of 2.4% from 2017.

Other current assets increased $26,313 or 25.9% from 2017 to 2018 mainly due to a 10.6% increase in improved patient related collections compared to 2017.

Capital assets, net increased $21,417 or 13.3% from 2017 to 2018. Increases of $16,783 in major movable equipment and $21,114 in construction-in-progress were related to the Cerner systems implementation, offset by related depreciation and amortization expense of $14,910.

Other noncurrent assets decreased $13,699 or 12.1% from 2017 to 2018 due to the receipt of various supplemental funds and unspent loan proceeds received for the District's electronic medical records system.

Deferred outflows of resources decreased $9,253 or 36.9% primarily due to changes in assumptions in inputs related to the pension plan in 2018.

Changes from fiscal 2016 to 2017 – *Patient accounts receivable, net* increased $260 or 0.5% from 2016 to 2017 mainly due to a shift in payor mix and slower payments from certain commercial payors. Within the change in payor mix, the District experienced an increase in patients qualifying for governmental programs in 2017 as compared to 2016 and a shift from traditional Medi-Cal to managed Medi-Cal plans. Charity care write-offs totaled $10,216 in 2017, an increase of 11.8% from 2016.

Other current assets increased $10,858 or 12.0% from 2016 to 2017 due to: 1) an increase in cash mainly due to improved patient related collections, and 2) an increase of $3,344 of estimated amounts due from third-party payor settlements due primarily to the District's qualification for participation in the Public Hospital Redesign and Incentives in Medi-Cal (PRIME) Program.

Capital assets, net decreased $1,617 or 1.0% from 2016 to 2017. Purchases of new equipment and the continuation of certain capital projects in the current year amounted to $9,125 which was offset by depreciation and amortization expense of $14,106 and an impairment write-down of $5,175 due to abandoned projects.

Other noncurrent assets increased $47,277 or 71.2% from 2016 to 2017 due to the receipt of various supplemental funds and unspent loan proceeds received for the District's electronic medical records system.

Deferred outflows of resources decreased $70 or 0.3% due to the amortization of $2,126 of deferred charges related to the advanced refunding of certain debt offset by an increase of $2,055 deferred outflows related to unrealized earnings on pension plan investments.

Operating Results and Changes in the District's Net Position

Table 2: Operating Results and Changes in Net Position during the fiscal years ended June 30 (in thousands)

	2018	2017	2016
OPERATING REVENUE			
Net patient service revenue	$ 437,588	$ 446,025	$ 403,129
Other	19,002	10,822	7,783
Total operating revenues	456,590	456,847	410,912
OPERATING EXPENSES			
Salaries and wages and employee benefits	239,440	223,817	230,341
Purchased services and professional fees	76,270	80,084	60,141
Other operating expenses	99,571	103,715	98,857
Depreciation and amortization	14,910	14,341	15,068
Total operating expenses	430,191	421,957	404,407
OPERATING INCOME	26,399	34,890	6,505
NONOPERATING REVENUES (EXPENSES)			
Grant revenue and contributions	3,888	3,809	3,560
Investment income	2,194	1,031	1,425
Dividend	(150)	-	-
Interest expense	(6,782)	(8,143)	(6,730)
Total nonoperating expenses, net	(850)	(3,303)	(1,745)
Change in net position	$ 25,549	$ 31,587	$ 4,760

The following is an explanation of the significant changes between fiscal years as shown in Table 2:

The first component of the overall change in the District's net position is its operating income that is generally the result of the difference between net patient service revenue and other operating revenues and the expenses incurred to perform those services. Operating income decreased by $8,491 or 24.3% in 2018 as compared to 2017 and increased by $28,385 or 436.4% in 2017 as compared to 2016. The primary components of the changes in operating income are as follows:

Operating Results and Changes in the District's Net Position (continued)

Changes from fiscal 2017 to 2018 – *Net patient service revenue* for the District decreased by $8,437 or 1.9% in 2018 compared to 2017. There was an overall increase of approximately $31,000 in net patient service revenue as a result of increased patient volumes, which was offset by a decrease in supplemental funding of $40,284 in 2018, as discussed in their respective sections below:

Patient Volumes

Inpatient Business Activity

	2018 Days	2017 Days	% Change
Acute Patient Days by Payor:			
Medicare	18,855	19,784	-4.7%
Medicare Managed Care	11,795	9,257	27.4%
Medi-Cal	13,162	14,581	-9.7%
Medi-Cal Managed Care	22,251	22,056	0.9%
Commerical Managed Care	15,460	15,010	3.0%
Other	1,489	1,398	6.5%
Self Pay	650	1,075	-39.5%
	83,662	83,161	0.6%

Although discharges increased from 19,249 in fiscal year 2017 to 20,829 in fiscal year 2018, the length of stay decreased from 4.32 to 4.02 days which resulted in patient days increasing by 501 in 2018 (0.6%), as indicated in the table above.

The overall case mix index for the District, which is a measure of patient acuity, increased from 1.24 in fiscal year 2017 to 1.30 in fiscal year 2018. The Medicare case mix index for the same period also increased from 1.79 to 1.81.

Surgeries increased by 943 cases (11.0%), from 8,552 in fiscal year 2017 to 9,495 in fiscal year 2018. Inpatient surgeries increased by 896 cases (24.2%), from 3,695 in fiscal year 2017 to 4,591 in fiscal year 2018. Outpatient surgeries increased by 128 cases (4.1%) and inpatient surgeries in the Women & Infants Pavilion decreased by 81 cases (4.6%).

Outpatient Business Activity

The District's outpatient visits increased by 233 (0.4%) from 61,917 in fiscal year 2017 to 62,150 in fiscal year 2018.

Emergency room visits increased by 8,201 (6.7%) from 121,732 in fiscal year 2017 to 129,933 in fiscal year 2018.

Supplemental Funding

	2018	2017
California Hospital Quality Assurance Fee Program (HQAF)	$ 13,395	$ 23,752
Assembly Bill 113	14,743	12,388
Medi-Cal Managed Care Rate Range Program	318	11,780
Trauma Center Fund	4,719	7,865
Disproportionate Share Hospital Programs	(8,006)	7,734
Cost Report Settlements and Other	1,720	3,654
Subtotal	26,889	67,173
IGT Fees*:		
HQAF	1,781	6,891
Assembly Bill 113	6,009	6,807
Medi-Cal Managed Care Rate Range Program	-	7,061
Net Supplemental Funds	$ 19,099	$ 46,414

*Represents IGT fees paid to the respective programs for both years presented, which were recorded in "Other Expenses"

The majority of this decrease in supplemental funding is due to the recognition of an additional reserve in the amount of $20,115 in 2018 for anticipated requests to return Senate Bill 1100 funds received for 2015, 2016, 2017, 2018 due to the District exceeding the statutory upper payment limit. Additionally, a reduction of $11,462 occurred in the Medi-Cal Managed Care Rate Range Program due to management's decision not to participate in the Program in 2018.

Operating Revenue, Other for the District increased by $8,180 or 75.6% in 2018 compared to 2017. In 2018, the District received $15,136 for the PRIME Program which is a 67.2% increase compared to $9,051 received in 2017. The District also recognized $368 for the Medicare and Medi-Cal Meaningful Use Program in FY 2018, compared to $1,551 reimbursement for the same Program in 2017.

Operating expenses increased $8,087 or 1.9% in 2018 as compared to 2017. Increases were mainly attributable to the following:

- Productive Wages increased $10,085
- Non-productive Wages increased $5,537

These increases were offset by decreases attributable to the following:

- Purchased Services costs and Professional fees decreased $3,962
- Supplies and other operating expenses decreased $4,143

Operating Results and Changes in the District's Net Position (continued)

Changes from fiscal 2016 to 2017 – *Net patient service revenue* for the District increased by $42,896 or 10.6% in 2017 compared to 2016. The District reported a net decrease in adjusted patient days of 4.1% from 2017 compared to 2016, yet realized a 13.8% increase in net patient service revenue per adjusted patient day as a result of price increases which became effective in October 2015. Additionally, the District recognized revenue from various supplemental funding sources totaling $67,173 and $37,653 in 2017 and 2016, respectively as follows:

	2017	2016
California Hospital Quality Assurance Fee Program	$ 23,752	$ 1,608
Assembly Bill 113	12,388	13,667
Medi-Cal Managed Care Rate Range Program	11,780	8,139
Trauma Center Fund	7,865	724
Disproportionate Share Hospital Programs	7,734	10,809
Cost Report Settlements and Other	3,654	2,706
	$ 67,173	$ 37,653

Operating Revenue, Other for the District increased by $3,039 or 39.0% in 2017 compared to 2016. In 2017, the District reimbursed the Medicare and Medi-Cal Meaningful Use Program $1,408 and $143, respectively, for program year FY2014. The District also received $9,051 for the PRIME program in 2017. In 2016, the District received $948 via Medicare Meaningful Use payment and $2,982 for the PRIME program. The Meaningful Use programs became available to the District in 2014.

Operating expenses increased $17,550 or 4.3% in 2017 as compared to 2016. Increases were mainly attributable to:

- Hospital Management Fees increased $10,051
- Nurse Registry and Contract Labor costs increased of $10,061
- C. N. A. Retire Health Benefit costs decreases of $3,893

Formatting Differences to Consider When Comparing the District's Statement of Revenues, Expenses, and Changes in Net Position to Other Nongovernment Hospitals

The Governmental Accounting Standards Board (GASB) requires a grouping on the statements of revenues, expenses, and changes in net position, which grouping differs from other non-governmental hospitals as follows: non-operating revenues, net includes interest expense, which in non-governmental hospitals is grouped as an operating expense. This GASB grouping requirement makes District hospitals conform to other government entities, such as cities and counties. Because of this difference, the District's published statements of revenues, expenses, and changes in net position is not readily comparable to other non-governmental hospitals because the GASB grouping requirement does not apply to non-governmental hospitals. This must be considered in order to compare the District to other non-governmental hospitals.

The District's Cash Flows

Net cash provided by operating activities increased $7,230 or 13.4% from 2017 to 2018 mainly due to improved collections on patient accounts receivable and various supplemental funding, and a decrease in payments to suppliers and contractors, offset by an increase in salary costs. Net cash provided by operating activities increased $35,785 or 172.0% from 2016 to 2017 mainly due to the receipt of various supplemental funding and a decrease in salary costs, offset by decrease for additional funding paid to the Pension Plan.

Capital Asset and Debt Administration Capital Assets

At the end of 2018, 2017, and 2016, the District had $183,001, $161,584, and $163,201, respectively, in capital assets, net of accumulated depreciation, as detailed in Note 6 to the basic financial statements. The District purchased new equipment which included information technology, surgical equipment, and other infrastructure projects costing $17,473 in 2018, $5,140 in 2017, and $4,783 in 2016. Also during 2018, 2017, and 2016, the District expended $0, $1,979, and $4,570, respectively, on buildings and leasehold improvements.

Debt

The District had $144,442, $151,365, and $132,847, in outstanding debt as of June 30, 2018, 2017, and 2016, respectively, comprised of revenue bonds, notes payable, and capital lease obligations as detailed in Note 8 to the basic financial statements. The District's formal debt issuances are subject to limitations imposed by state law. In February 2017, Moody's assigned the District's Series 2016A, Ba3 with an improved outlook.

Economic Factors on the Fiscal Year 2018 Budget and Beyond

Over the next five years, the District will continue to face challenges in the evolving landscape of the healthcare industry. The industry is moving towards value-based care which requires improved efficiency and quality and a shift of cost to consumers. As the industry migrates to a value-based system and new entrants force market innovation, the hospital-focused inpatient utilization rates continue to decline in many areas of the country. Other drivers of lower hospital utilization include focus on decreasing readmission rates, transitioning patients to observation status, and increased use of care management teams.

Government payors have slowed on spending growth which is tempering top-line revenue growth. On top of the 2% sequestration cuts that were put in place in 2013, Medicare is looking for additional ways to cut costs by focusing on bundled payments (which considers a patient's full continuum of care) and quality-based reimbursement models which reward health care providers for their contributions to producing better health and penalizing providers who are not able to improve quality outcomes and reduce readmission rates. The Medicare value-based purchasing program includes measuring process-of-care measures, patient experience measures, patient outcome measures and efficiency measures. The District continues to work diligently to improve upon these quality metrics which reduces the risk of reimbursement cuts.

Economic Factors on the Fiscal Year 2018 Budget and Beyond (continued)

Greater use of Medi-Cal managed care is likely to continue with the goals of improved quality and increased savings through reduced use of hospital services. In order to address the needs of the growing Medi-Cal population, the District continues to participate in the PRIME program, which focuses on addressing the overall needs of Medi-Cal beneficiaries and care coordination for at-risk populations. Contingent upon meeting the requirements of the program, the District is eligible for incentive payments throughout the implementation of the 5-year project plan. Although the District did not participate in the first two five-year waiver programs, it is participating in the third five-year waiver program (Medi-Cal 2020).

On the state level, the Affordable Care Act (ACA) has significantly increased the coverage for the Medi-Cal population, which reduces the amount of uncompensated/self-pay care for hospitals across the state, including the District. Medi-Cal eligibility expansion now includes all individuals and families with incomes up to 138% of the poverty level. As a result of the expanded coverage, Medi-Cal beneficiaries now represent nearly a third of California's 38-million population.

Despite some of the challenges the District faces from government payors, the District has been focused on appropriate reimbursement in contracting and is actively negotiating its insurance contracts to ensure that it maintains competitive reimbursement rates over the coming years. During 2018, Kaiser Permanente extended their short-term agreement to a ten-year agreement which solidifies a long-term relationship and provides stability and financial sustainability that can be modeled. The District continues to focus on ensuring that it is able to maximize the amount of supplemental funding that it qualifies for, such as the LA County Measure B trauma center funds which resulted in increased funding this year. Furthermore, the District is actively engaged in service line analysis and program development to identify opportunities for growth in profitable services, as well as evaluating unprofitable services for cost improvements, better process efficiencies, and/or elimination of services when necessary.

The District will be committing significant capital expenditures in the coming years on projects such as the new Electronic Medical Records system and improvements in Internet technology. The District is faced with seismic non-compliance in 2030 that must be dealt with in the next few years, which has the potential for significant capital requirements. The District continues to invest in routine capital improvements and equipment as needs arise. In order to move forward on these projects, the District continues to focus on ways to improve top-line revenue growth, reduce expenses, and maintain fiscal discipline.

Changes to Board Governance

On November 7, 2017, the voters of Antelope Valley approved Measure H, creating a separate 501(c)(3) nonprofit entity governed by a nine-member Board comprised of the five elected District board members, three community members, and the Chief Executive Officer. The separate nonprofit entity is known as Antelope Valley Hospital, Inc. and will operate the hospital through a transfer services agreement and have financial reporting responsibility to the District. The authority to exercise an agreement is in place; however, no decision by the District has been made at this time.

Contacting the District's Financial Management

This financial report is designed to provide the District's patients, suppliers, community members, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the District's administration by telephoning 661.949.5533.

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	June 30, 2018	June 30, 2017
CURRENT ASSETS		
Cash and cash equivalents	$ 28,483,907	$ 56,773,409
Short-term investments	84,794,353	26,126,905
Restricted cash and investments, current	2,117,113	2,127,009
Patient accounts receivable, net of estimated uncollectible accounts of $28,158,804 in 2018 and $32,507,751 in 2017	54,639,695	56,770,214
Other receivables, net of estimated uncollectible accounts of $194,500 in 2018 and $862,177 in 2017	3,893,856	1,996,892
Supplies inventory	6,132,035	5,643,412
Prepaid expenses and other current assets	2,304,355	2,704,702
Estimated third-party payor settlements	-	6,040,294
Total current assets	182,365,314	158,182,837
NONCURRENT CASH AND INVESTMENTS		
Held by trustee	23,931,730	34,733,094
Less amounts required to meet current obligations	2,089,896	2,089,896
	21,841,834	32,643,198
Other long-term investments	73,617,079	76,590,199
Total noncurrent cash and investments	95,458,913	109,233,397
CAPITAL ASSETS, not being depreciated	9,869,241	9,869,241
CAPITAL ASSETS, net of accumulated depreciation	173,131,854	151,714,823
OTHER ASSETS	4,475,807	4,400,245
Total noncurrent assets	282,935,815	275,217,706
Total assets	465,301,129	433,400,543
DEFERRED OUTFLOWS OF RESOURCES		
Net difference between expected and actual earnings on pension plan investments (Note 10)	14,038,744	22,574,218
Deferred loss on debt defeasance (Note 8)	1,790,422	2,507,962
Total deferred outflows of resources	15,829,166	25,082,180
Total assets and deferred outflows of resources	$ 481,130,295	$ 458,482,723

(Continued)

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	June 30, 2018	June 30, 2017
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 26,556,172	$ 20,866,648
Accrued payroll and related expenses	15,512,138	14,289,848
Current maturities of long-term debt	6,534,783	6,093,605
Accrued self-insurance liabilities, current portion	6,510,980	7,662,402
Accrued interest payable	2,089,896	2,089,896
Estimated third-party payor settlements	3,677,888	-
Total current liabilities	60,881,857	51,002,399
LONG-TERM DEBT, net of current portion	137,906,894	145,271,153
ACCRUED SELF-INSURANCE LIABILITIES, net of current portion	15,054,185	14,257,598
PENSION LIABILITY	128,132,582	139,629,399
Total liabilities	341,975,518	350,160,549
DEFERRED INFLOWS OF RESOURCES		
Differences between actual and expected pension experience (Note 10)	8,355,911	3,071,897
NET POSITION		
Net investment in capital assets	64,281,570	47,460,362
Restricted, expendable for:		
Workers' compensation collateral	27,217	37,113
Specific operating activities	1,231,537	1,281,026
Restricted, non-expendable for minority interests	703,604	652,520
Unrestricted	64,554,938	55,819,256
Total net position	130,798,866	105,250,277
Total liabilities, deferred inflows of resources, and net position	$ 481,130,295	$ 458,482,723

See accompanying notes.

	Years Ended June 30,	
	2018	2017
OPERATING REVENUES		
Net patient service revenue, net of provision for uncollectible accounts of $19,880,645 in 2018 and $26,794,496 in 2017	$ 437,587,663	$ 446,025,100
Other revenue	19,002,071	10,822,243
Total operating revenues	456,589,734	456,847,343
OPERATING EXPENSES		
Salaries and wages	177,883,898	167,798,591
Employee benefits	61,555,678	56,018,775
Professional and medical fees	49,522,198	51,064,805
Purchased services	26,747,672	29,019,338
Supplies	66,029,613	59,237,170
Other expenses	33,541,968	44,477,161
Depreciation and amortization	14,910,092	14,341,486
Total operating expenses	430,191,119	421,957,326
OPERATING INCOME	26,398,615	34,890,017
NONOPERATING REVENUES (EXPENSES)		
Grant revenue and contributions	3,888,365	3,809,181
Investment income	2,194,008	1,030,791
Dividend	(150,000)	-
Interest expense	(6,782,399)	(8,143,434)
Total nonoperating expenses, net	(850,026)	(3,303,462)
Change in net position	25,548,589	31,586,555
NET POSITION, Beginning of year	105,250,277	73,663,722
NET POSITION, End of year	$ 130,798,866	$ 105,250,277

Antelope Valley Healthcare District
Statements of Cash Flows

	Years Ended June 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	$ 449,436,364	$ 446,545,335
Payments to suppliers and contractors	(169,632,589)	(184,749,054)
Payments to employees	(235,549,486)	(218,809,855)
Other receipts and payments, net	17,057,842	11,094,867
Net cash provided by operating activities	61,312,131	54,081,293
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from grants and contributions	3,785,630	3,776,110
Net cash provided by noncapital financing activities	3,785,630	3,776,110
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(36,103,325)	(14,906,497)
Proceeds from issuance of long-term debt, including premium	-	21,000,000
Principal repayments on long-term debt	(7,410,785)	(2,298,989)
Interest payments on long-term debt	(7,184,093)	(8,146,771)
Net cash used in capital and related financing activities	(50,698,203)	(4,352,257)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(63,296,875)	(26,470,893)
Proceeds from sale of investments	18,413,807	10,054,678
Interest and dividends received on investments	2,194,008	1,030,791
Net cash used in investing activities	(42,689,060)	(15,385,424)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(28,289,502)	38,119,722
CASH AND CASH EQUIVALENTS, Beginning of year	56,773,409	18,653,687
CASH AND CASH EQUIVALENTS, End of year	$ 28,483,907	$ 56,773,409

(Continued)

See accompanying notes.

	Years Ended June 30, 2018	2017
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 26,398,615	$ 34,890,017
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for bad debts	19,880,645	26,794,496
Depreciation and amortization	14,910,092	14,341,486
Loss on disposal of assets	665,600	441,835
Loss on impairment of assets	-	1,792,431
Changes in assets and liabilities:		
Patient accounts receivable, net	(17,750,126)	(27,021,250)
Other receivables, net	(1,944,229)	272,624
Supplies inventory and prepaid expenses and other current assets	(88,276)	(328,444)
Estimated third-party payor settlements	9,718,182	746,989
Other assets	(75,562)	(4,290,269)
Deferred outflows and inflows of resources	14,537,028	(989,386)
Accounts payable and accrued liabilities	5,689,524	1,996,477
Accrued payroll and related expenses	1,222,290	(939,898)
Accrued self-insurance liabilities	(354,835)	(67,410)
Pension liability	(11,496,817)	6,441,595
Net cash provided by operating activities	$ 61,312,131	$ 54,081,293

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Capital assets acquired through capital leases	$ 670,756	$ -

Note 1 – Nature of Operations and Reporting Entity

Antelope Valley Healthcare District (the “District”) is a health care district and political subdivision of the state of California, organized and existing under the provisions of the Local Health Care District Law of the state of California. The District is located in Lancaster, California, and is governed by a five-member Board of Directors elected by voters within the District.

The District primarily earns revenues by providing inpatient, outpatient, and emergency care services to patients in the Antelope Valley, High Desert, and eastern Sierra areas. It also operates a home health agency in the same geographic areas.

On November 7, 2017 the voters of Antelope Valley approved Measure H, creating a separate 501(c)(3) nonprofit entity governed by a nine-member Board comprised of the five elected District board members, three community members, and the Chief Executive Officer. The separate nonprofit entity is known as Antelope Valley Hospital, Inc. and will operate the hospital through a transfer services agreement and have financial reporting responsibility to the District.

These financial statements present the District and the following blended component units:

- The Antelope Valley Outpatient Imaging Center, LLC (AVOIC) is a legally separate entity that operates two diagnostic imaging centers located in Lancaster, California and Palmdale, California with a December 31-year end. The District owns 70% of AVOIC and can unilaterally make operating decisions such as establishing a budget or issuing debt. The District has determined that AVOIC meets the criteria of a blended component unit under GASB Statement No. 61 as the governing bodies are substantially the same and because the operations are managed by the District similar to other hospital departments.

- The Gift Foundation of the Antelope Valley Health Care District d/b/a Antelope Valley Hospital Foundation (AVHF) is a 501(c)(3) tax exempt organization and is legally separate from the District and operates with a June 30 fiscal year end. Although the District does not appoint a voting majority of the AVHF’s Board of Directors nor is the District financially accountable for AVHF, the District has determined that AVHF meets the criteria of a blended component unit in accordance with GASB Statement No. 61 as the economic resources earned and held by AVHF have historically been used for the direct benefit of the District.

- The Desert Hills Sleep Disorder Center, LLC (DHSDC) is a legally separate entity which operated a sleep diagnostic facility in Lancaster, California until operations were ceased during the fiscal year ended June 30, 2016, at which time all operating equipment was sold or disposed. The District owns 60% of the DHSDC and can unilaterally make operating decisions such as establishing a budget or issuing debt. The District determined that DHSDC met the criteria of a blended component unit under GASB Statement No. 61 as the governing bodies were substantially the same and because the operations were managed by the District similar to other hospital departments. The District is currently in the process of dissolving DHSDC.

Note 1 – Nature of Operations and Reporting Entity (continued)

The other members' interest in AVOIC and DHSDC is accounted for as a minority interest in the District's financial statements. All significant intercompany accounts and transactions have been eliminated.

Condensed component unit information for each of the District's blended component units during the fiscal year ended June 30, 2018 is as follows:

Condensed Statements of Net Position
As of June 30, 2018

	AVOIC	AVHF	DHSDC
ASSETS			
Patient accounts receivable, net	$ 3,005,063	$ -	$ -
Other current assets	354,715	4,378,669	13,423
Capital assets, net	-	-	-
Other noncurrent assets	882,754	-	-
Total assets	$ 4,242,532	$ 4,378,669	$ 13,423
LIABILITIES			
Due to the District	$ 20,252	$ 55,527	$ 81,607
Other current liabilities	1,545,821	-	-
Long-term liabilities	240,521	-	-
Total liabilities	1,806,594	55,527	81,607
NET POSITION			
Net investment in capital assets	330,479	-	-
Restricted, expendable	-	1,132,822	-
Restricted, nonexpendable	1,170,449	-	280,000
Unrestricted	935,010	3,190,320	(348,184)
Total net position	2,435,938	4,323,142	(68,184)
Total liabilities and net position	$ 4,242,532	$ 4,378,669	$ 13,423

Note 1 – Nature of Operations and Reporting Entity (continued)

Condensed Statements of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2018

	AVOIC	AVHF	DHSDC
OPERATING REVENUE			
Net patient service revenue	$ 17,147,192	$ -	$ -
Other	36,263	-	-
Total operating revenues	17,183,455	-	-
OPERATING EXPENSES			
Salaries, wages, and employee benefits	5,249,814	91,650	-
Purchased services and professional fees	7,505,766	2,338	252
Supplies	995,649	1,108	-
Other operating expenses	2,427,231	201,695	-
Depreciation and amortization	292,526	-	-
Total operating expenses	16,470,986	296,791	252
OPERATING INCOME (LOSS)	712,469	(296,791)	(252)
NONOPERATING REVENUES (EXPENSES)			
Grant revenue and contributions	-	42,446	-
Dividend	(500,000)	-	-
Interest expense	(42,188)	-	-
Total nonoperating revenues (expenses), net	(542,188)	42,446	-
Change in net position	170,281	(254,345)	(252)
Beginning net position	2,265,657	4,577,487	(67,932)
Ending net position	$ 2,435,938	$ 4,323,142	$ (68,184)

Note 1 – Nature of Operations and Reporting Entity (continued)

Condensed Statements of Cash Flows
For the Year Ended June 30, 2018

	AVOIC	AVHF	DHSDC
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from and on behalf of patients	$ 16,470,918	$ -	$ 2
Payments to suppliers and contractors	(11,055,271)	(187,396)	(252)
Payments to employees	(5,289,507)	(91,735)	-
Other receipts and payments, net	71,674	43,553	-
Net cash provided by (used in) operating activities	197,814	(235,578)	(250)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(811,602)	-	-
Principal repayments on long-term debt	(144,254)	-	-
Interest payments on long-term debt	(42,188)	-	-
Net cash used in capital and related financing activities	(998,044)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received on investments	-	-	-
Net cash provided by investing activities	-	-	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(800,230)	(235,578)	(250)
CASH AND CASH EQUIVALENTS, Beginning of year	1,045,735	4,614,248	13,674
CASH AND CASH EQUIVALENTS, End of year	$ 245,505	$ 4,378,670	$ 13,424

Note 1 – Nature of Operations and Reporting Entity (continued)

Condensed component unit information for each of the District's blended component units during the fiscal year ended June 30, 2017 is as follows:

Condensed Statements of Net Position
As of June 30, 2017

	AVOIC	AVHF	DHSDC
ASSETS			
Patient accounts receivable, net	$ 2,328,789	$ -	$ -
Other current assets	1,225,130	4,614,247	13,675
Capital assets, net	363,678	-	-
Total assets	$ 3,917,597	$ 4,614,247	$ 13,675
LIABILITIES			
Due to the District	$ 756	$ 36,760	$ 81,607
Other current liabilities	1,515,481	-	-
Long-term liabilities	135,703	-	-
Total liabilities	1,651,940	36,760	81,607
NET POSITION			
Net investment in capital assets	167,149	-	-
Restricted, expendable	-	1,118,968	-
Restricted, nonexpendable	1,000,000	-	280,000
Unrestricted	1,098,508	3,458,519	(347,932)
Total net position	2,265,657	4,577,487	(67,932)
Total liabilities and net position	$ 3,917,597	$ 4,614,247	$ 13,675

Note 1 – Nature of Operations and Reporting Entity (continued)

Condensed Statements of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2017

	AVOIC	AVHF	DHSDC
OPERATING REVENUE			
Net patient service revenue	$ 15,929,972	$ -	$ -
Other	23,577	-	-
Total operating revenues	15,953,549	-	-
OPERATING EXPENSES			
Salaries, wages and employee benefits	4,727,037	92,447	-
Purchased services and professional fees	6,954,102	3,589	556
Other operating expenses	3,589,040	132,740	(54)
Depreciation and amortization	233,079	-	-
Total operating expenses	15,503,258	228,776	502
OPERATING INCOME (LOSS)	450,291	(228,776)	(502)
NONOPERATING REVENUES/(EXPENSES)			
Grant revenue and contributions	-	683,426	-
Investment income	-	686	-
Interest expense	(13,203)	-	-
Total nonoperating revenues/ (expenses), net	(13,203)	684,112	-
Change in net position	437,088	455,336	(502)
Beginning net position	1,828,569	4,122,151	(67,430)
Ending net position	$ 2,265,657	$ 4,577,487	$ (67,932)

Note 1 – Nature of Operations and Reporting Entity (continued)

Condensed Statements of Cash Flows
For the Year Ended June 30, 2017

	AVOIC	AVHF	DHSDC
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from and on behalf of patients	$ 16,023,008	$ -	$ -
Payments to suppliers and contractors	(10,292,175)	(146,012)	(502)
Payments to employees	(4,939,023)	(92,447)	-
Other receipts and payments, net	23,577	684,112	-
Net cash provided by (used in) operating activities	815,387	445,653	(502)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(12,106)	-	-
Principal repayments on long-term debt	(134,260)	-	-
Interest payments on long-term debt	(13,203)	-	-
Net cash used in capital and related financing activities	(159,569)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received on investments	-	-	-
Net cash provided by investing activities	-	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	655,818	445,653	(502)
CASH AND CASH EQUIVALENTS, Beginning of year	389,917	4,168,595	14,176
CASH AND CASH EQUIVALENTS, End of year	$ 1,045,735	$ 4,614,248	$ 13,674

Joint ventures – In addition to the blended component units described above, the District has also entered into the following joint venture agreements that are not component units of the District.

HBWP, LLC – On November 1, 2014, the District entered into a joint venture arrangement with HBWP, LLC (HBWP) whose members consist of a private corporation and 7 other private and public hospitals. HBWP was formed for the purpose of developing a health benefits and wellness program whereby members of the joint venture that self-insure their employees can obtain discounted rates and/or reciprocity pricing as part of purchasing health insurance products. The District is a voting member but does not have control over the joint venture or an equity interest. Separate financial statements of the joint venture are not available to the public.

Note 1 – Nature of Operations and Reporting Entity (continued)

Antelope Valley Surgical Institute, LLC – On May 9, 2017, the District entered into a joint venture arrangement by purchasing a 49% equity interest in Antelope Valley Surgical Institute, LLC (AVSI) which operates an ambulatory surgical center located in Lancaster, California. The District is a voting member but does not have control over the joint venture. The District utilizes the equity method of accounting. Under this method, the District records a share of their net profit or loss within their operating income or loss and increases or reduces the District's investment in the joint venture. The District does not consolidate the total joint venture's assets or liabilities or the revenues and expenses in the financial statements. The District's ongoing financial interest was approximately $4,366,000 and $4,290,000 as of June 30, 2018 and 2017, respectively, and is included within other assets in the statements of net position. Separate financial statements of the joint venture are not available to the public.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting and presentation – The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles for healthcare organizations and the State Controller's *Minimum Audit Requirements and Reporting Guidelines*, and are presented in accordance with the reporting model as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The District follows the business-type activities' requirements of GASB Statement No. 34 and No. 63. This approach requires the following components of the District's financial statements:

GASB Statement No. 34 and subsequent amendments, including GASB Statement No. 63 as discussed below, established standards for external financial reporting and requires that resources be classified for accounting and reporting purposes into the following net position categories:

Net investment in capital assets – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – expendable – Assets whose use by the District are subject to externally imposed constraints that can be fulfilled by actions of the District pursuant to those constraints or that expire by the passage of time. Restricted resources are used in accordance with the District's policies. When both restricted and unrestricted resources are available for use, the determination to use restricted or unrestricted resources is made on a case-by-case basis.

Restricted net position – nonexpendable – Assets whose use by the District are not available as they represent the net position of minority interests of AVOIC and DHSDC.

Unrestricted net position – This amount represents the amount of net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Note 2 – Summary of Significant Accounting Policies (continued)

Cash and cash equivalents – The District considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents consisted primarily of money market accounts with brokers as of June 30, 2018 and 2017.

Investments and investment income – The District's investments are carried at fair value. Fair value is determined using quoted market prices. Investment income includes dividend and interest income, realized gains and losses on investments, and the net change during the fiscal year in the fair value of investments carried at fair value. Amounts required to meet current debt service obligations are classified within short-term investments.

Patient accounts receivable – The District reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients, and others. The District provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions. As a service to the patient, the District bills third-party payors directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Supplies inventory – Supplies inventory are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital assets – Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. The capitalization threshold (the dollar value above which asset acquisitions are added to the capital asset accounts) is $5,000 for all asset classifications and for items with a useful life of more than two years.

Depreciation is computed using the straight-line method over the estimated useful life of each asset.

Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the District:

Land improvements	2-25 years
Buildings and leasehold improvements	5-50 years
Equipment	3-30 years

Note 2 – Summary of Significant Accounting Policies (continued)

The District capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowings. Total interest capitalized and incurred during fiscal years ended June 30, 2018 and 2017 was as follows:

	2018	2017
Interest capitalized	$ 218,642	$ 52,702
Interest charged to expense	6,782,399	8,143,434
Total interest incurred	$ 7,001,041	$ 8,196,136

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is dependent upon the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the statements of revenues, expenses, and changes in net position. The District recognized an impairment loss of approximately $1,792,000 during the fiscal year ended June 30, 2017, related to the abandonment of certain capital projects. No impairment charges were recognized during the fiscal year ended June 30, 2018.

Compensated absences – District policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits and are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Pensions – For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Antelope Valley Hospital Medical Center Retirement Plan (“Plan”) and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2 – Summary of Significant Accounting Policies (continued)

Risk management – The District is exposed to 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 accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and workers' compensation claims. During fiscal year 2018, certain claims were not covered commercially or by any other means of insurance (see Note 12).

The District is self-insured for a portion of its exposure to risk of loss from workers' compensation, malpractice claims, and employee health, dental, and accident benefits. Annual estimated provisions are accrued based on actuarially determined amounts or management's estimate, and includes an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Net patient service revenue – The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

During the fiscal year ended June 30, 2018, the District increased its estimated amounts due from third-party payors and increased net patient service revenue by approximately $2,500,000 due to changes in accounting estimates related to prior periods. During the fiscal year ended June 30, 2017, the District increased its estimated amounts due from third-party payors and increased net patient service revenue by approximately $3,300,000 due to changes in accounting estimates related to prior periods.

Normal estimation differences between subsequent cash collections on patient accounts receivable and net patient accounts receivable estimated in the prior year are reported as adjustments to net patient service revenue in the current period. During the fiscal year ended June 30, 2018, the District increased its net patient service revenue by approximately $5,800,000 due to changes in accounting estimates related to prior periods, including settlements with two payors on accounts that were fully reserved of approximately $2,400,000. During the fiscal year ended June 30, 2017, the District increased its net patient service revenue by approximately $2,200,000 due to changes in accounting estimates related to prior periods.

Charity care – The District provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income taxes – The District is generally exempt from federal and state income taxes under Section 116 of the Internal Revenue Code and a similar provision of state law. However, the District is subject to federal income tax on any unrelated business taxable income.

Note 2 – Summary of Significant Accounting Policies (continued)

Grant and contribution income – During 2018 and 2017, the District received approximately $3,096,000 and $2,952,000, respectively, in grant revenues from the federal government. These funds were recognized as non-operating revenue when the funds were expended for the purpose specified by the grantee. The grant expenditures are recorded as operating expenses. In addition, during 2018 and 2017, the District received approximately $792,000 and $857,000, respectively, in other grant and contribution income. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes.

Operating revenues and expenses – The statements of revenues, expenses, and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the District's principal activity. Non-exchange revenues, including grants, contributions, and income (losses) from investments, are reported as non-operating revenues. Operating expenses include all expenses incurred to provide health care services, other than financing costs.

Bond issuance costs – The District expenses bond issuance costs in the period such costs are incurred in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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

Future Governmental Accounting Standards Board statements – The GASB has issued several pronouncements that have effective dates that may impact future presentations. The District is evaluating the potential impacts of the following GASB statements on its accounting practices and financial statements.

Issued in November 2016, GASB Statement No. 83, *Certain Asset Retirement Obligations* establishes standards of accounting and financial reporting for certain Asset Retirement Obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. Implementation of this statement is effective fiscal year 2019.

Issued in January 2017, GASB Statement No. 84, *Fiduciary Activities* establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Implementation of this statement is effective fiscal year 2020.

Note 2 – Summary of Significant Accounting Policies (continued)

Issued in June 2017, GASB Statement No. 87, *Leases* is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Implementation of this statement is effective fiscal year 2021.

Issued in March 2018, GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. Implementation of this statement is effective fiscal year 2019.

Issued in June 2018, GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Implementation of this statement is effective fiscal year 2021.

Note 3 – Net Patient Service Revenue

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. These payment arrangements include:

Medicare – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, acuity and other factors. The District is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor. The Medicare administrative contractor has audited the District's cost reports through June 30, 2015.

Medi-Cal – Inpatient acute services rendered to Medi-Cal program beneficiaries are paid at a prospectively determined rate per discharge (APR-DRG). These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services are reimbursed based upon a fee schedule per procedure, test, or service.

Note 3 – Net Patient Service Revenue (continued)

Approximately 67% and 72% of net patient service revenue is from participation in the Medicare and state-sponsored Medi-Cal programs for the fiscal years ended June 30, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Note 4 – Deposits, Investments, and Investment Income

Cash and investments as of June 30 consist of the following:

	2018	2017
Cash on hand	$ 3,740	$ 3,925
Deposits	46,678,857	91,260,280
Investments	164,171,689	102,996,515
Total cash and investments	$ 210,854,286	$ 194,260,720

The carrying values of deposits and investments shown above are included in the statements of net position as follows:

	2018	2017
Cash and cash equivalents	$ 28,483,907	$ 56,773,409
Short-term investments	84,794,353	26,126,905
Restricted cash and investments, current	2,117,113	2,127,009
Noncurrent cash and investments	95,458,913	109,233,397
Total cash and investments	$ 210,854,286	$ 194,260,720

Deposits – Custodial credit risk is the risk that, in the event of a bank failure, an entity's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law, which requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts.

Note 4 – Deposits, Investments, and Investment Income (continued)

As of June 30, 2018 and 2017, approximately $15,511,000 and $1,318,000, respectively, of the District's bank balances were insured for the first $250,000 or covered by collateral held in the pledging bank's trust department in the name of the District. These amounts exclude deposits held by the District's blended component units with carrying values of approximately $4,638,000 and $5,674,000 as of June 30, 2018 and 2017, respectively. As nongovernmental entities, the blended component units are not subject to the collateralization requirements. The blended component units' cash accounts are uncollateralized and exceeded federally insured limits by approximately $3,404,000 and $4,431,000 as of June 30, 2018 and 2017, respectively.

Investments – Under provisions of the California Government Code, the District's investments are limited to certain types of investments. In general, the District may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury, U.S. agencies and instrumentalities, California agencies, negotiable certificates of deposit, and in bank repurchase agreements. It may also invest to a limited extent in commercial paper, corporate and depository institution debt securities, and mortgage-backed securities.

The framework for measuring fair value provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are described as follows:

> **Level 1** – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
>
> **Level 2** – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
>
> **Level 3** – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Note 4 – Deposits, Investments, and Investment Income (continued)

Following is a description of the valuation methodologies used for assets measured at fair value.

Corporate bonds, U.S. instrumentalities, and U.S. treasury – Valued using pricing models maximizing the use of observable inputs for similar securities, which includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, those corporate bonds are valued under a discounted cash flow approach that maximizes observable inputs, such as current yields or similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

The valuation methods used by the District may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the District believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investment in state investment pool – The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying statements of net position at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis and therefore is excluded from the fair value hierarchy.

Note 4 – Deposits, Investments, and Investment Income (continued)

The following table discloses the fair value hierarchy of the District's assets by level as of June 30, 2018:

		Fair Value Measurements		
	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. instrumentalities	$ 36,943,684	$ -	$ 36,943,684	$ -
Corporate bonds	51,514,111	-	51,514,111	-
U.S. Treasury	21,452,268	-	21,452,268	-
Held by trustee:				
Corporate bonds	6,099,421	-	6,099,421	-
	116,009,484	$ -	$ 116,009,484	$ -
Investments not subject to the fair value hierarchy:				
State investment pool - LAIF	48,162,205			
Total investments	$ 164,171,689			

Note 4 – Deposits, Investments, and Investment Income (continued)

The following table discloses the fair value hierarchy of the District's assets by level as of June 30, 2017:

		Fair Value Measurements		
	June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. instrumentalities	$ 36,239,122	$ -	$ 36,239,122	$ -
Corporate bonds	36,765,117	-	36,765,117	-
U.S. Treasury	10,879,030	-	10,879,030	-
Held by trustee:				
Corporate bonds	627,088	-	627,088	-
	84,510,357	$ -	$ 84,510,357	$ -
Investments not subject to the fair value hierarchy:				
State investment pool - LAIF	18,486,158			
Total investments	$ 102,996,515			

The District had the following investments and maturities as of June 30, 2018:

		Investment Maturities (In Years)		
Investment Type	Fair Value	Less Than 1	1-5	More Than 5
External investment pool - LAIF	$ 48,162,205	$ 48,162,205	$ -	$ -
U.S. instrumentalities	26,202,579	13,642,485	12,560,094	-
Corporate bonds	62,255,216	11,358,878	34,365,257	16,531,081
U.S. Treasury	21,452,268	11,432,006	10,020,262	-
Held by trustee:				
Corporate bonds	6,099,421	6,099,421	-	-
	$ 164,171,689	$ 90,694,995	$ 56,945,613	$ 16,531,081

Note 4 – Deposits, Investments, and Investment Income (continued)

The District had the following investments and maturities as of June 30, 2017:

		Investment Maturities (In Years)		
Investment Type	Fair Value	Less Than 1	1-5	More Than 5
External investment pool - LAIF	$ 18,486,158	$ 18,486,158	$ -	$ -
U.S. instrumentalities	36,239,122	6,529,125	17,593,486	12,116,511
Corporate bonds	36,765,117	653,016	26,066,818	10,045,283
U.S. Treasury	10,879,030	-	10,879,030	-
Held by trustee:				
Corporate bonds	627,088	627,088	-	-
	$ 102,996,515	$ 26,295,387	$ 54,539,334	$ 22,161,794

Interest rate risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy generally limits its investment portfolio to maturities of less than ten years unless approved by the Board of Directors. The external investment pool is presented as an investment with a maturity of less than one year because such investments are redeemable in full immediately.

Credit risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy generally limits its investments to a credit rating of A or the equivalent by a nationally recognized statistical rating organization. The District's investments not directly guaranteed by the U.S. government were rated as follows as of June 30, 2018 and 2017:

Investment Type	Moody's	S&P
External Investment Pool - LAIF	Not Rated	Not Rated
Corporate Bonds	Aaa - Baa2	AAA - BBB+
U.S. Instrumentalities	Aaa	AAA
U.S. Treasury	Aaa	AA+

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the District's investments as disclosed in the table above as of June 30, 2018 and 2017 are held by custodians in other than the District's name. The District's investment policy for custodial credit risk requires compliance with the provisions of state's law.

Note 4 – Deposits, Investments, and Investment Income (continued)

Concentration of credit risk – The District places no limit on the amount that may be invested in any one issuer. The following investments exceeded 5% of the total fair value of all investments as of June 30:

	2018		2017	
Investment Type	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
Federal National Mortgage Association	$ 19,410,885	12%	$ 8,138,069	8%
Federal Home Loan Mortgage Corporation	11,626,622	7%	-	n/a
Federal Home Loan Bank	-	n/a	8,559,838	8%
Federal National Mortgage Association Pool	-	n/a	7,913,184	8%

Investment income – Investment income during the fiscal years ended June 30 consisted of:

	2018	2017
Interest, dividends, and realized gains on sales of investments	$ 2,264,499	$ 1,049,973
Net decrease in fair value of investments	(70,491)	(19,182)
	$ 2,194,008	$ 1,030,791

Restricted cash and investments – Current restricted cash and investments are amounts restricted for payment of interest related to outstanding debt. Held by trustee are cash proceeds from the equipment loan restricted for a capital project, as described in Note 8 below.

Note 5 – Patient Accounts Receivable

The District grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payor agreements. Gross patient accounts receivable as of June 30 consisted of:

	2018	2017
Medicare	29 %	25 %
Medi-Cal	38	47
Other third-party and commercial payors	26	22
Self-pay and others	7	6
Total	100 %	100 %

Note 6 – Capital Assets

Capital assets activity during the fiscal year ended June 30, 2018 was as follows:

	Beginning Balance June 30, 2017	Additions	Deletions	Transfers	Ending Balance June 30, 2018
Land	$ 9,869,241	$ -	$ -	$ -	$ 9,869,241
Land improvements	23,925,467	-	-	-	23,925,467
Buildings and leasehold improvements	176,658,057	690,068	-	-	177,348,125
Equipment	196,515,978	16,602,127	(770,357)	992,282	213,340,030
Construction in progress	10,614,615	19,700,528	(529,323)	(992,282)	28,793,538
	417,583,358	36,992,723	(1,299,680)	-	453,276,401
Less accumulated depreciation:					
Land improvements	12,129,100	784,486	-	-	12,913,586
Buildings and leasehold improvements	77,209,408	4,428,569	(1,322)	-	81,636,655
Equipment	166,660,786	9,697,037	(632,758)	-	175,725,065
	255,999,294	14,910,092	(634,080)	-	270,275,306
	$ 161,584,064	$ 22,082,631	$ (665,600)	$ -	$ 183,001,095

Construction commitments for various construction projects approximate $2,115,279 as of June 30, 2018.

Capital assets activity during the fiscal year ended June 30, 2017 was as follows:

	Beginning Balance June 30, 2016	Additions	Deletions	Transfers	Ending Balance June 30, 2017
Land	$ 9,869,241	$ -	$ -	$ -	$ 9,869,241
Land improvements	23,925,467	-	-	-	23,925,467
Buildings and leasehold improvements	174,664,905	1,051,346	-	941,806	176,658,057
Equipment	192,392,156	4,483,577	(1,019,459)	659,704	196,515,978
Construction in progress	4,982,227	9,424,276	(2,190,378)	(1,601,510)	10,614,615
	405,833,996	14,959,199	(3,209,837)	-	417,583,358
Less accumulated depreciation:					
Land improvements	11,260,839	868,261	-	-	12,129,100
Buildings and leasehold improvements	72,797,215	4,412,193	-	-	77,209,408
Equipment	158,575,325	9,061,032	(975,571)	-	166,660,786
	242,633,379	14,341,486	(975,571)	-	255,999,294
	$ 163,200,617	$ 617,713	$ (2,234,266)	$ -	$ 161,584,064

Note 7 – Self-Insurance Liabilities

Workers' compensation claims – The District is self-insured for the first $1,000,000 per occurrence of workers' compensation risks. The District purchases commercial insurance coverage above the self-insurance limits. Losses from asserted and unasserted claims identified under the District's incident reporting system are actuarially determined based on the District's past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. It is reasonably possible that the District's estimate of losses will change by a material amount in the near term. Unpaid claim liabilities were discounted using a discount rate of 1.56% in 2018 and in 2017 to account for the time value of money to determine the current estimated liabilities as reflected below. Activity in the District's accrued workers' compensation claims liability during 2018 and 2017 is summarized as follows:

	2018	2017
Balance, beginning of the year	$ 13,008,000	$ 13,092,999
Current year claims incurred and changes in estimates for claims incurred in the prior year	3,170,813	4,798,813
Claims and expenses paid	(3,512,813)	(4,883,812)
Balance, end of year	$ 12,666,000	$ 13,008,000

Medical malpractice claims – The District is self-insured for medical malpractice claims for the first $750,000 per incident with a $4,000,000 annual aggregate. The District also maintains excess liability coverage for claims in excess of $20,000,000. Insurance coverage is on a claims-made basis.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the fiscal year by estimating the probable ultimate costs of the incidents. Annual estimated provisions are accrued based on the District's past experience as well as other considerations, including the nature of the claim or incident and relevant trend factors. Losses from asserted and unasserted claims identified under the District's incident reporting system are actuarially determined based on the District's past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. It is reasonably possible that this estimate could change materially in the near term. Unpaid claim liabilities were discounted using a discount rate of 1.56% in 2018 and 2017 to account for the time value of money to determine the current estimated liabilities as reflected below.

Note 7 – Self-Insurance Liabilities (continued)

Activity in the District's accrued medical malpractice claims liability during 2018 and 2017 is summarized as follows:

	2018	2017
Balance, beginning of the year	$ 7,912,000	$ 7,522,000
Current year claims incurred and changes in estimates for claims incurred in the prior years	5,405,475	1,560,064
Claims and expenses paid	(1,688,475)	(1,170,064)
Balance, end of year	$ 11,629,000	$ 7,912,000

Accrued medical claims – The District provides certain health and dental benefits to enrollees that serve under contract to the hospital. The cost of medical services provided to these enrollees is accrued in the period that the services are rendered. A provision has been made for claims in process of review and for claims incurred but not reported at year-end. The amount of this liability is computed using historical claims payment experience, and a review of experience for similar plans. Amounts accrued totaled approximately $1,610,000 and $1,600,000 as of June 30, 2018 and 2017, respectively, and are included in accrued self-insurance liabilities on the statements of net position.

Estimates are adjusted based upon changes in experience and such adjustments are reflected in current operations. Although considerable variability is inherent in such estimates, there is at least a possibility that recorded estimates will change by a material amount in the near term.

Note 8 – Long-Term Obligations

The following is a summary of long-term obligation transactions for the District during the fiscal years ended June 30:

	2018				
	Beginning Balance	Additions	Payments and Reductions	Ending Balance	Due Within 1 Year
Series 2016A District Revenue Bonds	$ 124,305,000	$ -	$ (1,980,000)	$ 122,325,000	$ 2,080,000
Equipment loan	20,000,000	-	(3,764,390)	16,235,610	3,878,673
Line of credit	1,000,000	-	(1,000,000)	-	-
Capital lease obligations	812,273	670,756	(666,395)	816,634	576,110
Unamortized bond premium	5,247,485	-	(183,052)	5,064,433	-
Total long-term debt	$ 151,364,758	$ 670,756	$ (7,593,837)	$ 144,441,677	$ 6,534,783

Note 8 – Long-Term Obligations (continued)

2017	Beginning Balance	Additions	Payments	Ending Balance	Due Within 1 Year
Series 2016A District Revenue Bonds	$ 126,120,000	$ -	$ (1,815,000)	$ 124,305,000	$ 1,980,000
Equipment loan	-	20,000,000	-	20,000,000	3,764,390
Line of credit	-	1,000,000	-	1,000,000	-
Capital lease obligations	1,296,262	-	(483,989)	812,273	349,215
Unamortized bond premium	5,430,533	-	(183,048)	5,247,485	-
Total long-term debt	$ 132,846,795	$ 21,000,000	$ (2,482,037)	$ 151,364,758	$ 6,093,605

Series 2016 District revenue bonds – On March 1, 2017, the District issued $126,120,000 of Series 2016A bonds at a premium of approximately $5,492,000. Proceeds of $21,161,975 were used to finance costs associated with seismic improvements to certain District buildings, fund a Bond Reserve Account, and pay the costs of issuance. The Series 2016A bonds are due March 1, 2046, with annual principal payments ranging from $1,815,000 to $7,855,000 due beginning March 1, 2017, plus semiannual interest payments at interest rates from 5.00% to 5.25%. The Series 2016A bonds are secured by pledge of the District's gross revenues and trustee held assets. The agreement is subject to certain financial covenants including minimum liquidity and net income to annual debt service ratio. The District recognized approximately $183,000 of amortization related to the bond premium during each of the fiscal years ended June 30, 2018 and 2017.

This advance refunding was undertaken to extend debt service payments over the next 30 years, which increased total debt service payments by approximately $105,235,000 and resulted in an economic loss (difference between present value of debt service payments of old debt and new debt) of approximately $11,137,000. The reacquisition price exceeded the net carrying amount of the old debt by $5,342,000. This accounting loss, net of amortization, is being reported as deferred outflows of resources on the statements of net position and is amortized over the shorter of the life of the old bonds or the new bonds. During the fiscal years ended June 30, 2018 and 2017, the District amortized approximately $718,000 and $2,508,000, respectively, related to the deferred outflows of resources, which is included in interest expense on the statements of revenues, expenses, and changes in net position.

Note 8 – Long-Term Obligations (continued)

The Series 2016A bond service requirements as of June 30, 2018, are as follows:

Years Ending June 30	Total to be Paid or Amortized	Principal	Interest
2019	$ 8,250,688	$ 2,080,000	$ 6,170,688
2020	8,251,688	2,185,000	6,066,688
2021	8,252,438	2,295,000	5,957,438
2022	8,252,688	2,410,000	5,842,688
2023	8,252,188	2,530,000	5,722,188
2024 - 2028	41,248,438	14,665,000	26,583,438
2029 - 2033	41,251,638	18,730,000	22,521,638
2034 - 2038	41,248,538	24,110,000	17,138,538
2039 - 2043	41,249,500	30,855,000	10,394,500
2044 - 2047	24,748,000	22,465,000	2,283,000
Premium	5,064,433	5,064,433	-
Total	$ 236,070,237	$ 127,389,433	$ 108,680,804

Equipment loan – In March 2017, the District entered into a purchase agreement of an electronic medical records system ("EMR System"). In June 2017, the District entered into a loan for $20,000,000 to partially finance the development and installation of the system which was placed into service in September 2018. Costs associated with the development are capitalized as outlays are made. The loan bears a nominal interest rate of 2.99% and is secured by the EMR System. The remaining costs will be funded through the District's operating activities (see Note 12). The agreement requires that the net income available for debt service to the maximum aggregate annual debt service not fall below 1:1. Monthly payments of principal and interest of $359,000 began in July 2017 and the loan matures in July 2022. As of June 30, 2018 and 2017, the outstanding loan balance was $16,235,610 and $20,000,000, respectively, and the escrow fund balance was $6,234,000 and $16,964,000.

The annual debt service requirements on the Equipment loan as of June 30, 2018, are as follows:

Years Ending June 30	Total to be Paid	Principal	Interest
2019	$ 4,311,894	$ 3,878,673	$ 433,221
2020	4,311,894	3,996,425	315,469
2021	4,311,893	4,117,751	194,142
2022	4,311,893	4,242,761	69,132
Total	$ 17,247,574	$ 16,235,610	$ 1,011,964

Note 8 – Long-Term Obligations (continued)

Revolving loan –The District entered into a revolving loan on December 1, 2016, with a borrowing capacity of $30,000,000. As of June 30, 2017, the outstanding balance was $1,000,000, and the effective interest rate was 4.24%. The revolving loan agreement was cancelled and repaid in full in September 2017.

Capital lease obligations – The District is obligated under leases for equipment that are accounted for as capital leases. The carrying value of assets under capital leases totaled approximately $17,776,000 as of June 30, 2018 and 2017, net of accumulated depreciation of approximately $15,570,000 and $15,189,000 as of June 30, 2018 and 2017, respectively.

The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates ranging from 0.32% to 5.53% together with the present value of the future minimum lease payments as of June 30, 2018:

Years Ending June 30,	
2019	$ 599,497
2020	243,212
2021	3,195
Total minimum lease payments	845,904
Less amount representing interest	29,270
Present value of future minimum lease payments	$ 816,634

Note 9 – Restricted Net Position

As of June 30, 2018 and 2017, restricted expendable net position was available for the following purposes:

	2018	2017
Workers' compensation collateral	$ 27,217	$ 37,113
Specific operating activities	1,231,537	1,281,026
Total restricted expendable net position	$ 1,258,754	$ 1,318,139

Note 10 – Pension Plans

403(b) defined contribution plan – The Antelope Valley Hospital Medical Center Section 403(b) Retirement Plan ("403(b) Plan") is a tax-deferred annuity plan that permits employees to accumulate retirement savings by making deferrals of their salary and permits the District to make non-elective contributions on behalf of eligible employees. Contributions are invested at the direction of the participants. The 403(b) Plan is administered by a board of trustees appointed by the District's governing body. The 403(b) Plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the 403(b) Plan document and were established and can be amended by action of the District's governing body. There were no contributions made by the District during the fiscal years ended June 30, 2018 or 2017.

Defined benefit pension plan – The Antelope Valley Hospital Medical Center Retirement Plan (the "Plan") is a single-employer defined benefit pension plan established by the District and administered by the Plan's board of trustees who are appointed by the District's governing body. The authority to establish and amend benefit provisions is vested in the District's governing body. The Plan issues publicly available stand-alone financial statements and required supplementary information for the Plan. The report may be obtained by writing to the Plan at 1600 West Avenue J, Lancaster, California 93534, or by calling 661.949.5533.

The Plan has implemented the requirements of the California Public Employees' Pension Reform Act of 2013 (PEPRA). In accordance with those provisions, certain members make contributions of 3.75% of their eligible compensation to the Plan each pay period.

Benefits provided – The Plan is a noncontributory defined-benefit plan that covers substantially all employees and provides for retirement, death, and disability benefits to Plan members and their beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with ten years of total service are eligible to retire at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: The Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect as of June 30, 2018, are summarized as follows:

Benefit formula	1.6% @ 65
Benefit vesting schedule	5 years service
Benefit payments	Monthly for life
Retirement age	55 - 65
Monthly benefits, as a % of eligible compensation	1.6% to 1.7%

Note 10 – Pension Plans (continued)

Employees covered – The following employees were covered by the benefit terms for the Plan:

	Valuation Date July 1, 2017 (Fiscal 2018)	Valuation Date July 1, 2016 (Fiscal 2017)
Active members	1,837	1,933
Terminated vested members not yet receiving benefits	1,357	1,282
Retirees and beneficiaries currently receiving benefits	785	713
Non-vested terminations with account balances	32	41
Total participants	4,011	3,969

Contributions – The authority to establish and amend obligations of Plan members and the District is set forth in the Plan document and is vested in the District's Board of Directors. Plan members are not required to contribute any of their annual covered salary. Prior to 2015, the District contributed such amounts, if any, as it determined to be appropriate each year. In fiscal year 2015, the Board adopted a pension funding policy whereby the District will contribute at minimum the actuarially determined contribution less required employee contributions. The annual required contributions for 2018 and 2017 were determined as part of actuarial valuation on July 1, 2017 and July 1, 2016, respectively, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a 7.00% investment rate of return in 2018 and 2017 and (b) projected salary increases of up to 6.50% and 7.00% per year in 2018 and 2017, respectively.

Net pension liability – The District's net pension liability is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability was determined as part of actuarial valuations as of July 1, 2017 and 2016 rolled forward to June 30, 2018 and 2017, respectively, using the projected unit credit actuarial cost method. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial assumptions – The total pension liability was determined as part of actuarial valuations as of July 1, 2017 and 2016 rolled forward to June 30, 2018 and 2017, respectively, using actuarial methods and assumptions in accordance with GASB Statement Nos. 67 and 68. The total pension liability was calculated using the entry age normal actuarial cost method and RP-2014 Annuitant and Employee Morality Table with Blue Collar adjustments for Males and Females projected using Scale BB to 2029 for PEPRA Participants and no projection for all other participants. The actuarial assumptions as of June 30, 2018 included (a) 7.00% investment long-term expected rate of return, net of investment expenses, and (b) projected salary increases of 3.00%. Items (a) and (b) included an inflation component of 2.50%.

Note 10 – Pension Plans (continued)

Discount rate – The discount rate used to measure the total pension liability for the fiscal years ended June 30, 2018 and 2017 was 7.00%. This single discount rate was based on the expected rate of return on pension plan investments of 7.00%. Based on the stated assumptions and the projection of cash flows, the Plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current pension plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine the Plan's discount rate assumes that contributions will continue at current levels for the current group of covered members with anticipated payroll increases of 3.00% annually.

The long-term expected rate of return on the Plan's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The long-term expected rates of return for each major investment class in the Plan's portfolio as of June 30, 2018 are as follows:

Investment Class	Long-Term Expected Rate of Return
Domestic equity	
U.S. large cap core	8.9%
U.S. mid cap core	9.8%
U.S. small cap core	10.3%
International	
Developed market	8.9%
Emerging market	11.5%
Alternative	
Real estate- private REITS	8.7%
Hedge funds - market neutral	2.8%
Commodities/Natural Resources	5.5%
Fixed income	
Core fixed income	3.2%
Cash equivalents	2.5%

Note 10 – Pension Plans (continued)

Changes in the net pension liability – The changes in Net Pension Liability follow:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Changes in Net Pension Liability			
Balances as of June 30, 2016	$ 284,943,910	$ 155,350,916	$ 129,592,994
Changes for the year:			
Service cost	7,016,415	-	7,016,415
Interest on total pension liability	20,593,745	-	20,593,745
Effect of economic/demographic gains or losses	5,281,052	-	5,281,052
Effect of assumptions changes or inputs	8,609,531	-	8,609,531
Benefit payments	(8,800,937)	(8,800,937)	-
Employer contributions	-	14,741,814	(14,741,814)
Member contributions	-	775,922	(775,922)
Net investment income	-	15,972,545	(15,972,545)
Administrative expenses	-	(25,943)	25,943
Balances as of June 30, 2017	$ 317,643,716	$ 178,014,317	$ 139,629,399
Changes for the year:			
Service cost	$ 8,268,096	$ -	$ 8,268,096
Interest on total pension liability	22,180,542	-	22,180,542
Effect of economic/demographic gains or losses	(8,105,314)	-	(8,105,314)
Effect of assumptions changes or inputs	129,155	-	129,155
Benefit payments	(9,825,764)	(9,825,764)	-
Employer contributions	-	18,559,927	(18,559,927)
Member contributions	-	1,048,104	(1,048,104)
Net investment income	-	14,388,611	(14,388,611)
Administrative expenses	-	(27,346)	27,346
Balances as of June 30, 2018	$ 330,290,431	$ 202,157,849	$ 128,132,582

Note 10 – Pension Plans (continued)

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the District, calculated using a discount rate of 7.00%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1% point lower (6.00%) or 1% point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Total pension liability	$ 376,809,076	$ 330,290,431	$ 291,723,234
Fiduciary net position	202,157,849	202,157,849	202,157,849
District's net pension liability	$ 174,651,227	$ 128,132,582	$ 89,565,385

Pension plan fiduciary net position – Detailed information about the Plan's fiduciary net position is available in the separately issued Antelope Valley Hospital Medical Center Retirement Plan financial reports.

Pension expenses and deferred outflows/inflows of resources related to pensions – The District recognized pension expense of approximately $20,883,000 and $21,663,000 during the fiscal years ended June 30, 2018 and 2017, respectively. The District reported deferred outflows of resources and deferred inflows of resources as of June 30, 2018 as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between actual and expected experience	$ (8,355,911)	$ 3,125,520
Changes in assumptions or inputs	-	8,622,609
Net differences between projected and actual earnings on plan investments	-	2,290,615
Total	$ (8,355,911)	$ 14,038,744

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension benefits will be recognized as pension expense as follows:

Year Ending June 30	Annual Recognition
2019	$ 4,257,142
2020	3,176,564
2021	(393,265)
2022	(1,357,608)

Note 11 – Other Benefit Plans

457(b) deferred compensation – Effective February 1, 2014, the District has a deferred compensation plan provided to certain executives of the District. The District records a deferred compensation liability for amounts due these individuals which include the earnings from the invested assets. The liability is funded as required by the plan, based on the anniversary date of each participant. Payments relating to these plans representing the District's funded contribution were not significant during the fiscal years ended June 30, 2018 or 2017.

Note 12 – Commitments and Contingencies

Litigation – In the normal course of business, the District is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the District's self-insurance program or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The District evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each potential claim. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

During October 2018, the District was assessed a judgment of approximately $4,500,000 related to litigation resulting from two class action lawsuits. Amounts accrued related to such matters totaled $4,500,000 and $600,000 as of June 30, 2018 and 2017, respectively, and are included in accounts payable and accrued expenses in the statements of net position. The District recognized additional legal expense during the fiscal year ended June 30, 2018, totaling $3,740,000 related to these lawsuits.

Labor agreements – A substantial portion of the District's staff is covered by two collective bargaining agreements. Negotiations during the fiscal year on the expired collective bargaining agreements are successful. New collective bargaining agreements expire on June 30, 2019 and December 7, 2019.

Operating leases – The District leases certain office space under operating lease agreements. Total lease expense, included in supplies and other expenses on the statements of revenues, expenses, and changes in net position, amounted to approximately $6,769,000 and $9,114,000 during the fiscal years ended June 30, 2018 and 2017, respectively. The District subleases certain office suites to other businesses in Lancaster, CA. The lease term is for fifty years, expiring on August 31, 2062. The lease calls for monthly payments in the amount of $3,646 adjusted for inflation every five years from the commencement date of the lease.

Note 12 – Commitments and Contingencies (continued)

Minimum future lease payments and sublease rental income offsets on existing non-cancelable leases as of June 30, 2018 are as follows:

	Minimum Future Lease Payments	Sublease Rental Income	Net
2019	$ 3,875,506	$ (43,750)	$ 3,831,756
2020	3,075,742	(43,750)	3,031,992
2021	2,824,292	(43,750)	2,780,542
2022	2,711,314	(43,750)	2,667,564
2023	2,664,301	(43,750)	2,620,551
Thereafter	9,752,581	(1,709,890)	8,042,691
Total minimum lease payments	$ 24,903,736	$ (1,928,640)	$ 22,975,096

Regulatory matters – The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, governmental health care program requirements, and reimbursements for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse 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 fraud and abuse, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory action unknown or unasserted at this time.

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated CMS to implement a Recovery Audit Contractor (RAC) program on a permanent and nationwide basis. The program uses RACs to search for potentially improper Medicare payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts, which have occurred at least one year ago but not longer than three years ago. RAC assessments against the District began during the fiscal year ended June 30, 2011. Claims recovery activity has not been significant during the fiscal years ending June 30, 2018 or 2017.

Note 12 – Commitments and Contingencies (continued)

Electronic Medical Records system – In March 2017, the District entered into a software licensing agreement to replace their existing EMR system. The EMR system was placed into service in September 2018. In addition, the District has committed to acquiring new equipment and to pay certain technology fees for installation, support, and maintenance services through March 2024 and may renew the license and related maintenance and support annually thereafter. The District is capitalizing certain costs associated with the development as outlays are made. The District entered into a loan for $20,000,000 (see Note 8) to partially offset the future minimum capital outlays required for the EMR System for each fiscal year ending June 30 as follows:

2019	$ 3,875,506
2020	3,075,742
2021	2,824,292
2022	2,711,314
2023	2,664,301
Thereafter	9,752,581
Total minimum payments	$ 24,903,736

Note 13 – Construction and Seismic Standards

Under current California laws, the District's facilities must comply with specific provisions related to structural and nonstructural seismic standards. These laws generally required hospitals to retrofit, remodel, or upgrade several buildings before 2013, subject to legislative changes and certain available exemptions. The District received an extension to comply by January 1, 2020. The District is currently working on improvements to noncompliant buildings in order to receive exemptions available under current legislation through 2030. The cost estimates associated with this compliance have not been completed but will likely be significant.

Note 14 – Revenue from Governmental Programs

Hospital Fee Program – The California Hospital Fee Program ("the Program") was signed into law on September 8, 2010 by the Governor of California. The Program requires a "hospital fee" or "Quality Assurance Fee" ("QA Fee") to be paid by certain hospitals to a state fund established to accumulate the assessed QA Fees and receive matching federal funds. QA Fees and corresponding matching federal funds are then paid to participating hospitals in two supplemental payment methodologies: a fee-for-service methodology and a managed care plan methodology. The District, as a non-designated public hospital in California, is not subject to the QA Fee assessments according to the legislation but rather receives net supplemental payments.

Additional legislation has continued to extend the Program. During 2018 and 2017, the District received supplemental payments through the Program. The Program provides funding for supplemental payments to California hospitals that serve Medi-Cal and uninsured patients.

Note 14 – Revenue from Governmental Programs (continued)

Under this legislation, the District recognized approximately $13,395,000 and $23,752,000 in net patient service revenue during the fiscal years ended June 30, 2018 and 2017, respectively. The net impact of the Program resulted in an increase in net position of approximately $11,614,000 and $17,062,000 during the fiscal years ended June 30, 2018 and 2017, respectively.

IGT Program – During 2018 and 2017, the District received supplemental payments through the Non-Designated Public Intergovernmental Transfer Program ("IGT Program") created by AB113 to allow non-designated public hospitals to access additional federal funds. Under this legislation, the District recognized approximately $14,743,000 and $12,388,000 in net patient service revenue during the fiscal years ended June 30, 2018 and 2017, respectively. Fees paid by the District into the IGT Program were approximately $6,008,000 and $6,806,000 during the fiscal years ended June 30, 2018 and 2017, respectively, and are included in other expenses. The net impact of the IGT Program resulted in an increase in net position of approximately $8,735,000 and $5,582,000 during the fiscal years ended June 30, 2018 and 2017, respectively.

Rate Range Program – During 2018 and 2017, the District received supplemental payments through the Medi-Cal Managed Care Rate Range Program. Medi-Cal Managed Care was created to secure additional federal revenue to deliver expanded services to the Managed Medi-Cal population. Under this legislation, the District recognized approximately $318,000 and $11,780,000 in net patient service revenue during the fiscal years ended June 30, 2018 and 2017, respectively. Fees paid by the District into the Medi-Cal Managed Care Rate Range Program were approximately $0 and $7,061,000 during the fiscal years ended June 30, 2018 and 2017, respectively, and are included in other expenses. The net impact of the Medi-Cal Managed Care Rate Range Program resulted in an increase in net position of approximately $318,000 and $4,719,000 during the fiscal years ended June 30, 2018 and 2017, respectively. The District did not participate in this Program in 2018 due to exceeding the statutory upper payment limit.

Additionally, as of June 30, 2018 and 2017, the District has a reserve in the amount of $27,489,000 and $6,776,000, respectively, related to the anticipated requests to return SB1100 funds received for the fiscal years 2015, 2016, 2017, and 2018 due to exceeding the statutory upper payment limit. These amounts are included in estimated third-party payor settlements in the accompanying statements of net position.

Meaningful use incentives – The American Recovery and Reinvestment Act of 2009 (ARRA) established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record (EHR) technology. The Medicare incentive payments will be paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medicare incentives, hospitals and physicians must meet EHR meaningful use criteria that become more stringent over three stages designated by CMS. Medicaid programs and payment schedules vary from state to state. The Medi-Cal programs required hospitals to register for the program prior to 2016, to engage in efforts to adopt, implement, or upgrade certified EHR technology in order to qualify for the initial year of participation, and to demonstrate meaningful use of certified EHR technology in order to qualify for payment for up to three additional years. Certified results from the fiscal years ended June 30, 2014 and 2013 and incentives of approximately $1,550,736 were repaid by the District during the fiscal year ended June 30, 2017.

Required Supplementary Information

Antelope Valley Healthcare District
Schedule of Changes in the Net Pension Liability and Related Ratios
Last Ten Years*
For the Fiscal Year Ended June 30, 2018

	2018	2017	2016	2015
Total pension liability				
Service cost	$ 8,268,096	$ 7,016,415	$ 6,707,130	$ 6,480,319
Interest on total pension liability	22,180,542	20,593,745	19,660,531	18,338,307
Changes of assumptions	129,155	8,609,531	8,835,715	-
Difference between expected and actual experience	(8,105,314)	5,281,052	(5,190,447)	-
Benefit payments	(9,825,764)	(8,800,937)	(7,711,728)	(6,893,033)
Net change in total pension liability	12,646,715	32,699,806	22,301,201	17,925,593
Total pension liability				
Beginning of year	317,643,716	284,943,910	262,642,709	244,717,116
End of year (a)	$ 330,290,431	$ 317,643,716	$ 284,943,910	$ 262,642,709
Plan fiduciary net position				
Employer contributions	$ 18,559,927	$ 14,741,814	$ 18,711,728	$ 13,888,450
Member contributions	1,048,104	775,922	660,595	146,786
Net investment income	14,388,612	15,972,545	(1,737,867)	5,222,989
Administrative expenses	(27,346)	(25,943)	(47,692)	(74,122)
Benefit payments	(9,825,765)	(8,800,937)	(7,711,728)	(6,893,033)
Net change in plan fiduciary net position	24,143,532	22,663,401	9,875,036	12,291,070
Plan fiduciary net position				
Beginning of year	178,014,317	155,350,916	145,475,880	133,184,810
End of year (b)	$ 202,157,849	$ 178,014,317	$ 155,350,916	$ 145,475,880
District’s net pension liability (a) - (b)	$ 128,132,582	$ 139,629,399	$ 129,592,994	$ 117,166,829
Plan fiduciary net position as a percentage of the total pension liability	61.21%	56.04%	54.52%	55.39%
Covered-employee payroll	$ 142,333,000	$ 150,657,227	$ 147,694,076	$ 145,363,784
District’s net pension liability as a percentage of covered-employee payroll	90.02%	92.68%	87.74%	80.60%

*Fiscal Year 2015 was the first year of implementation, therefore only four years are shown.

Notes to Schedule:

Changes in benefit terms – The figures above do not include any liability impact that may have resulted from Plan changes which occurred after July 1, 2015. This applies to voluntary benefit changes as well as offers of service credits.

Fiscal Year Ended	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Surplus)	Covered Payroll	Contribution as a % of Covered Payroll	Valuation Date	Investment Rate of Return Assumption
6/30/2018	$ 16,292,095	$ 18,559,927	$ (2,267,832)	$ 142,333,000	13.03%	7/1/2017	7.00%
6/30/2017	13,875,355	14,741,814	(866,459)	150,657,227	9.78%	7/1/2016	7.00%
6/30/2016	13,400,105	18,711,728	(5,311,628)	147,694,076	12.67%	7/1/2015	7.25%
6/30/2015	13,497,568	13,888,450	(390,882)	145,363,784	9.55%	7/1/2014	7.50%
6/30/2014	17,804,538	7,226,851	10,577,687	141,499,947	5.11%	7/1/2013	8.00%
6/30/2013	16,717,000	8,076,596	8,640,404	136,714,925	5.91%	7/1/2012	8.00%
6/30/2012	15,110,012	6,879,315	8,230,697	138,940,618	4.95%	7/1/2011	8.00%
6/30/2011	12,757,461	7,240,424	5,517,037	134,153,568	5.40%	7/1/2010	8.00%
6/30/2010	11,053,926	5,830,054	5,223,872	127,037,158	4.59%	7/1/2009	8.00%
6/30/2009	10,163,395	5,660,550	4,502,845	107,653,212	5.26%	7/1/2008	8.00%

Notes to Schedule

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Effective July 1, 2014: Individual Entry Age Normal cost method through July 1, 2013: Projected Unit Credit cost method
Amortization Method	Effective July 1, 2014: Closed 25-year amortization, level percentage of pay through July 1, 2013: Open 10-year amortization, level dollar amount
Asset Valuation Method	Market value gains and losses smoothed over four years, with result within 20% of the market value
Healthy Mortality	Effective July 1, 2015: Healthy Combined RP-2014 mortality projected to 2029 using scale BB for PEPRA participants Effective July 1, 2009: Healthy Combined RP-2000 mortality projected to 2015 (2030 for PEPRA participants) Through July 1, 2008: 1983 Group Annuity Mortality Tables
Inflation	Effective July 1, 2015: 2.50% per year Effective July 1, 2007: 2.75% per year Through July 1, 2006: 3.0% per year
Salary Increases	Effective July 1, 2015: 7.0% - 3.0% by duration Effective July 1, 2010: 7.5% - 3.5% by duration Through July 1, 2009: 5.0% per year with merit increases
Retirement age:	Normal retirement at 65 years old; Early retirement at 55 years old and 10 years of service
Investment rate of return:	Effective July 1, 2016: 7.0%, net of investment expense, including inflation Effective July 1, 2015: 7.25%, net of investment expense, including inflation Effective July 1, 2014: 7.5%, net of investment expense, including inflation

Other Supplementary Information

	AVHD	AVOIC	Other	Total	Eliminations	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
CURRENT ASSETS						
Cash and cash equivalents	$ 23,846,248	$ 245,505	$ 4,392,154	$ 28,483,907	$ -	$ 28,483,907
Short-term investments	84,794,353	-	-	84,794,353	-	84,794,353
Restricted cash and investments, current	2,117,113	-	-	2,117,113	-	2,117,113
Patient accounts receivable, net	51,634,632	3,005,063	-	54,639,695	-	54,639,695
Other receivables, net	4,026,381	24,861	-	4,051,242	(157,386)	3,893,856
Supplies inventory	6,072,931	59,104	-	6,132,035	-	6,132,035
Prepaid expenses and other current assets	2,279,110	25,245	-	2,304,355	-	2,304,355
Total current assets	174,770,768	3,359,778	4,392,154	182,522,700	(157,386)	182,365,314
NONCURRENT CASH AND INVESTMENTS						
Held by trustee	23,931,730	-	-	23,931,730	-	23,931,730
Less amounts required to meet current obligations	2,089,896	-	-	2,089,896	-	2,089,896
	21,841,834	-	-	21,841,834	-	21,841,834
Other long-term investments	73,617,079	-	-	73,617,079	-	73,617,079
Total noncurrent cash and investments	95,458,913	-	-	95,458,913	-	95,458,913
CAPITAL ASSETS, not being depreciated	9,869,241	-	-	9,869,241	-	9,869,241
CAPITAL ASSETS, net of accumulated depreciation	172,249,100	882,754	-	173,131,854	-	173,131,854
OTHER ASSETS	5,684,103	-	-	5,684,103	(1,208,296)	4,475,807
Total noncurrent assets	283,261,357	882,754	-	284,144,111	(1,208,296)	282,935,815
Total assets	458,032,125	4,242,532	4,392,154	466,666,811	(1,365,682)	465,301,129
DEFERRED OUTFLOWS OF RESOURCES						
Net difference between expected and actual earnings on pension plan investments	14,038,744	-	-	14,038,744	-	14,038,744
Deferred loss on debt defeasance	1,790,422	-	-	1,790,422	-	1,790,422
	15,829,166	-	-	15,829,166	-	15,829,166
Total assets and deferred outflows of resources	$ 473,861,291	$ 4,242,532	$ 4,392,154	$ 482,495,977	$ (1,365,682)	$ 481,130,295

(Continued)

Antelope Valley Healthcare District
Schedule of Net Position (continued)
June 30, 2018

	AVHD	AVOIC	Other	Total	Eliminations	Total
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION						
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	$ 25,695,252	$ 881,360	$ 136,946	$ 26,713,558	$ (157,386)	$ 26,556,172
Accrued payroll and related expenses	15,139,179	372,959	-	15,512,138	-	15,512,138
Current maturities of long-term debt	6,223,029	311,754	-	6,534,783	-	6,534,783
Accrued self-insurance liabilities, current portion	6,510,980	-	-	6,510,980	-	6,510,980
Accrued interest payable	2,089,896	-	-	2,089,896	-	2,089,896
Estimated third-party payor settlements	3,677,888	-	-	3,677,888	-	3,677,888
Total current liabilities	59,336,224	1,566,073	136,946	61,039,243	(157,386)	60,881,857
LONG-TERM DEBT, net of current portion	137,666,373	240,521	-	137,906,894	-	137,906,894
ACCRUED SELF-INSURANCE LIABILITIES, net of current portion	15,054,185	-	-	15,054,185	-	15,054,185
PENSION LIABILITIES	128,132,582	-	-	128,132,582	-	128,132,582
Total liabilities	340,189,364	1,806,594	136,946	342,132,904	(157,386)	341,975,518
DEFERRED INFLOWS OF RESOURCES						
Differences in experience (Note 10)	8,355,911	-	-	8,355,911	-	8,355,911
NET POSITION						
Members' contributed capital	-	1,170,449	280,000	1,450,449	(1,450,449)	-
Net investment in capital assets	63,951,091	330,479	-	64,281,570	-	64,281,570
Restricted, expendable for:						
Workers' compensation collateral	27,217	-	-	27,217	-	27,217
Specific operating activities	98,715	-	1,132,822	1,231,537	-	1,231,537
Restricted, nonexpendable for minority interests	-	-	-	-	703,604	703,604
Unrestricted	61,238,993	935,010	2,842,386	65,016,389	(461,451)	64,554,938
Total net position	125,316,016	2,435,938	4,255,208	132,007,162	(1,208,296)	130,798,866
Total liabilities, deferred inflows of resources and net position	$ 473,861,291	$ 4,242,532	$ 4,392,154	$ 482,495,977	$ (1,365,682)	$ 481,130,295

See accompanying report of independent auditors.

Antelope Valley Healthcare District
Schedule of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2018

	AVHD	AVOIC	Other	Total	Eliminations	Total
OPERATING REVENUES						
Net patient service revenue	$ 420,440,471	$ 17,147,192	$ -	$ 437,587,663	$ -	$ 437,587,663
Other revenue	19,665,421	36,263	-	19,701,684	(699,613)	19,002,071
Total operating revenue	440,105,892	17,183,455	-	457,289,347	(699,613)	456,589,734
OPERATING EXPENSES						
Salaries and wages	173,263,013	4,529,235	91,650	177,883,898	-	177,883,898
Employee benefits	60,835,014	720,579	85	61,555,678	-	61,555,678
Professional and medical fees	42,016,432	7,505,766	-	49,522,198	-	49,522,198
Purchased services	26,744,312	-	3,360	26,747,672	-	26,747,672
Supplies	65,032,856	995,649	1,108	66,029,613	-	66,029,613
Other expenses	31,144,641	2,427,231	201,695	33,773,567	(231,599)	33,541,968
Depreciation and amortization	14,617,566	292,526	-	14,910,092	-	14,910,092
Total operating expenses	413,653,834	16,470,986	297,898	430,422,718	(231,599)	430,191,119
OPERATING INCOME (LOSS)	26,452,058	712,469	(297,898)	26,866,629	(468,014)	26,398,615
NONOPERATING REVENUES (EXPENSES)						
Grant revenue and contributions	3,393,984	-	42,446	3,436,430	451,935	3,888,365
Investment income	2,194,008	-	-	2,194,008	-	2,194,008
Dividend to parents	-	(500,000)	-	(500,000)	350,000	(150,000)
Interest expense	(6,741,316)	(42,188)	1,105	(6,782,399)	-	(6,782,399)
Total nonoperating revenues (expenses), net	(1,153,324)	(542,188)	43,551	(1,651,961)	801,935	(850,026)
Income before contributions and distributions	25,298,734	170,281	(254,347)	25,214,668	333,921	25,548,589
CAPITAL CONTRIBUTIONS	451,935	-	-	451,935	(451,935)	-
Change in net position	25,750,669	170,281	(254,347)	25,666,603	(118,014)	25,548,589
NET POSITION, Beginning of year	99,565,347	2,265,657	4,509,555	106,340,559	(1,090,282)	105,250,277
NET POSITION, End of year	$ 125,316,016	$ 2,435,938	$ 4,255,208	$ 132,007,162	$ (1,208,296)	$ 130,798,866

Antelope Valley Healthcare District
Schedule of Net Position
June 30, 2017

	AVHD	AVOIC	Other	Total	Eliminations	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
CURRENT ASSETS						
Cash and cash equivalents	$ 51,099,692	$ 1,045,735	$ 4,627,982	$ 56,773,409	$ -	$ 56,773,409
Short-term investments	26,126,905	-	-	26,126,905	-	26,126,905
Restricted cash and investments, current	2,127,009	-	-	2,127,009	-	2,127,009
Patient accounts receivable, net	54,441,425	2,328,789	-	56,770,214	-	56,770,214
Other receivables, net	2,055,743	60,272	-	2,116,015	(119,123)	1,996,892
Supplies inventory	5,581,536	61,876	-	5,643,412	-	5,643,412
Prepaid expenses and other current assets	2,647,455	57,247	-	2,704,702	-	2,704,702
Estimated third-party payor settlements	6,040,294	-	-	6,040,294	-	6,040,294
Total current assets	150,120,059	3,553,919	4,627,982	158,301,960	(119,123)	158,182,837
NONCURRENT CASH AND INVESTMENTS						
Held by trustee	34,733,094	-	-	34,733,094	-	34,733,094
Less amounts required to meet current obligations	2,089,896	-	-	2,089,896	-	2,089,896
	32,643,198	-	-	32,643,198	-	32,643,198
Other long-term investments	76,590,199	-	-	76,590,199	-	76,590,199
Total noncurrent cash and investments	109,233,397	-	-	109,233,397	-	109,233,397
CAPITAL ASSETS, not being depreciated	9,869,241	-	-	9,869,241	-	9,869,241
CAPITAL ASSETS, net of accumulated depreciation	151,351,145	363,678	-	151,714,823	-	151,714,823
OTHER ASSETS	5,490,527	-	-	5,490,527	(1,090,282)	4,400,245
Total noncurrent assets	275,944,310	363,678	-	276,307,988	(1,090,282)	275,217,706
Total assets	426,064,369	3,917,597	4,627,982	434,609,948	(1,209,405)	433,400,543
DEFERRED OUTFLOWS OF RESOURCES						
Net difference between expected and actual earnings on pension plan investments	22,574,218	-	-	22,574,218	-	22,574,218
Deferred loss on debt defeasance	2,507,962	-	-	2,507,962	-	2,507,962
	25,082,180	-	-	25,082,180	-	25,082,180
Total assets and deferred outflows of resources	$ 451,146,549	$ 3,917,597	$ 4,627,982	$ 459,692,128	$ (1,209,405)	$ 458,482,723

(Continued)

	AVHD	AVOIC	Other	Total	Eliminations	Total
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION						
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	$ 19,824,585	$ 1,042,759	$ 118,427	$ 20,985,771	$ (119,123)	$ 20,866,648
Accrued payroll and related expenses	13,877,196	412,652	-	14,289,848	-	14,289,848
Current maturities of long-term debt	6,032,779	60,826	-	6,093,605	-	6,093,605
Accrued self-insurance liabilities, current portion	7,662,402	-	-	7,662,402	-	7,662,402
Accrued interest payable	2,089,896	-	-	2,089,896	-	2,089,896
Total current liabilities	49,486,858	1,516,237	118,427	51,121,522	(119,123)	51,002,399
LONG-TERM DEBT, net of current portion	145,135,450	135,703	-	145,271,153	-	145,271,153
ACCRUED SELF-INSURANCE LIABILITIES, net of current portion	14,257,598	-	-	14,257,598	-	14,257,598
PENSION LIABILITY	139,629,399	-	-	139,629,399	-	139,629,399
Total liabilities	348,509,305	1,651,940	118,427	350,279,672	(119,123)	350,160,549
DEFERRED INFLOWS OF RESOURCES						
Differences in experience (Note 10)	3,071,897	-	-	3,071,897	-	3,071,897
NET POSITION						
Members' contributed capital	-	1,000,000	280,000	1,280,000	(1,280,000)	-
Net investment in capital assets	47,293,213	167,149	-	47,460,362	-	47,460,362
Restricted, expendable for:						
Workers' compensation collateral	37,113	-	-	37,113	-	37,113
Specific operating activities	162,058	-	1,118,968	1,281,026	-	1,281,026
Restricted, nonexpendable for minority interests	-	-	-	-	652,520	652,520
Unrestricted	52,072,963	1,098,508	3,110,587	56,282,058	(462,802)	55,819,256
Total net position	99,565,347	2,265,657	4,509,555	106,340,559	(1,090,282)	105,250,277
Total liabilities, deferred inflows of resources, and net position	$ 451,146,549	$ 3,917,597	$ 4,627,982	$ 459,692,128	$ (1,209,405)	$ 458,482,723

Antelope Valley Healthcare District
Schedule of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2017

	AVHD	AVOIC	Other	Total	Eliminations	Total
OPERATING REVENUES						
Net patient service revenue	$ 430,095,128	$ 15,929,972	$ -	$ 446,025,100	$ -	$ 446,025,100
Other revenue	11,474,810	23,577	-	11,498,387	(676,144)	10,822,243
Total operating revenue	441,569,938	15,953,549	-	457,523,487	(676,144)	456,847,343
OPERATING EXPENSES						
Salaries and wages	163,697,171	4,008,971	92,449	167,798,591	-	167,798,591
Employee benefits	55,300,709	718,066	-	56,018,775	-	56,018,775
Professional and medical fees	44,110,153	6,954,102	550	51,064,805	-	51,064,805
Purchased services	29,015,749	-	3,589	29,019,338	-	29,019,338
Supplies	58,286,522	948,000	2,648	59,237,170	-	59,237,170
Other expenses	42,076,568	2,641,040	130,038	44,847,646	(370,485)	44,477,161
Depreciation and amortization	14,108,407	233,079	-	14,341,486	-	14,341,486
Total operating expenses	406,595,279	15,503,258	229,274	422,327,811	(370,485)	421,957,326
OPERATING INCOME (LOSS)	34,974,659	450,291	(229,274)	35,195,676	(305,659)	34,890,017
NONOPERATING REVENUES (EXPENSES)						
Grant revenue and contributions	3,082,241	-	683,426	3,765,667	43,514	3,809,181
Investment income	1,030,105	-	686	1,030,791	-	1,030,791
Interest expense	(8,130,227)	(13,203)	(4)	(8,143,434)	-	(8,143,434)
Total nonoperating revenues (expenses), net	(4,017,881)	(13,203)	684,108	(3,346,976)	43,514	(3,303,462)
Income (loss) before capital contributions	30,956,778	437,088	454,834	31,848,700	(262,145)	31,586,555
CAPITAL CONTRIBUTIONS	43,514	-	-	43,514	(43,514)	-
Change in net position	31,000,292	437,088	454,834	31,892,214	(305,659)	31,586,555
NET POSITION, Beginning of year	68,565,055	1,828,569	4,054,721	74,448,345	(784,623)	73,663,722
NET POSITION, End of year	$ 99,565,347	$ 2,265,657	$ 4,509,555	$ 106,340,559	$ (1,090,282)	$ 105,250,277

See accompanying report of independent auditors.