Report of Independent Auditors
and Consolidated Financial Statements
with Supplementary Information for

Antelope Valley Healthcare District

June 30, 2014 and 2013

MOSS-ADAMS LLP

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Antelope Valley Healthcare District

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Antelope Valley Healthcare District (the "District") as of and for the years ended June 30, 2014 and 2013, and the related notes to the consolidated financial statements, which collectively comprise the District's basic consolidated 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 opinions.

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Opinions

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, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, for the year ended June 30, 2014, the District adopted new accounting guidance that reflects certain changes to the presentation and the reclassification of certain accounts due to the implementation of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities.* Our opinion is not modified with respect to this matter.

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 10 and the schedules of funding progress for the District's defined benefit pension plan and postretirement health plan on page 44 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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 opinions on the financial statements that comprise Antelope Valley Healthcare District's basic consolidated financial statements. The consolidating schedules on pages 45 through 50 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements.

The consolidating schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain

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additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating schedules are fairly stated, in all material respects, in relation to the basic consolidated financial statements as a whole.

Moss Adams LLP

Los Angeles, California
November 25, 2014

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 for the fiscal years ended June 30, 2014, 2013, and 2012. 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 and liabilities using the accrual basis of accounting as of the statement date. The difference between the two 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 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 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 liabilities reported in the statements of net position. The District's net position increased by $339 or 0.3% in 2014 over 2013, and increased by $3,959 or 3.5% in 2013 over 2012 as shown in Table 1.

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

	2014	2013 As Adjusted	2012 As Adjusted
ASSETS			
Patient accounts receivable, net	$ 51,858	$ 48,954	$ 39,128
Other current assets	70,213	78,150	68,017
Capital assets, net	178,428	169,273	160,581
Other noncurrent assets	70,477	71,575	96,067
Total assets	$ 370,976	$ 367,952	$ 363,793
LIABILITIES			
Long-term debt (including current portion)	$ 130,486	$ 135,684	$ 141,113
Other current and noncurrent liabilities	124,447	116,564	110,935
Total liabilities	254,933	252,248	252,048
NET POSITION			
Net investment in capital assets	62,017	53,044	47,440
Restricted, expendable	689	690	838
Restricted, nonexpendable	535	561	982
Unrestricted	52,802	61,409	62,485
Total net position	116,043	115,704	111,745
Total liabilities and net position	$ 370,976	$ 367,952	$ 363,793

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

Changes from fiscal 2013 to 2014

Patient accounts receivable, net increased $2,904 or 5.9% from 2013 to 2014 mainly due to a shift in payor mix and slower payments from certain commercial payers. Within the change in payor mix, the District experienced an increase in patients qualifying for governmental programs in 2014 as compared to 2013 and a shift from traditional Medicare and Medi-Cal to managed care plans. Charity care write offs totaled $13,181 in 2014, a decrease of 19% from 2013.

Other current assets decreased $7,937 or 10.2% from 2013 to 2014 was due to 1) a decrease in cash of approximately $5,400 to support the increase in capital assets and 2) a decrease in amounts due from third party payors which was primarily due to a one time Budget Neutrality settlement from the Center for Medicare and Medicaid Services (CMS) that was received in FY 2014.

The District's Net Position (continued)

Capital assets, net increased $9,155 or 5.4% from 2013 to 2014. This was due to the continued construction and renovation under the District's Master Plan and other projects. These projects include the opening of two hybrid catheterization labs, grounds repair and a new front canopy and the construction of new Magnetic Resonance Imaging and CT scan suites in the hospital.

Other noncurrent assets decreased $1,098 or 1.5% from 2013 to 2014. This was due to use of bond funds for the District's Master Plan renovation projects.

Changes from fiscal 2012 to 2013

Patient accounts receivable, net increased $9,826 or 25.1% from 2012 to 2013 mainly due to a shift in payor mix, specifically related to an increase in patients qualifying for governmental programs in 2013 as compared to 2012 as evidenced by a decline in charity care write offs of $13,058 from 2012 to 2013, and an increase in net patient service revenue, exclusive of other supplemental funding and changes in cost report settlement estimates, of $4,855 from 2012 to 2013.

Other current assets increased $10,133 or 14.9% from 2012 to 2013 mainly due to funding from the Intergovernmental Transfer (IGT) program and increased cost report settlement amounts receivable resulting from Budget Neutrality appeals with CMS. As of June 30, 2014, amounts receivable for IGT funding and Budget Neutrality settlements totaled $5,673 and $3,306, respectively. As of June 30, 2013, amounts related to IGT funding were received prior to June 30, 2013 and as such, no accrual was recorded. No amounts were received in 2012 related to Budget Neutrality.

Capital assets, net increased $8,692 or 5.4% from 2012 to 2013. This was due to the District's Master Plan renovation and other projects. *Other noncurrent assets* decreased $24,492 or 25.2% from 2012 to 2013. This was due to use of bond funds of $8,517 for the District's Master Plan renovation projects, and $16,100 in expenditures for hospital operations.

Operating Results and Changes in the District's Net Position

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

	2014	2013 As Adjusted	2012 As Adjusted
OPERATING REVENUE			
Net patient service revenue	$ 349,333	$ 350,481	$ 345,341
Other	10,753	4,344	4,666
Total operating revenues	360,086	354,825	350,007
OPERATING EXPENSES			
Salaries and wages and employee benefits	214,881	207,689	214,622
Purchased services and professional fees	49,242	50,310	41,192
Other operating expenses	82,836	79,626	78,264
Depreciation and amortization	12,521	12,679	12,524
Total operating expenses	359,480	350,304	346,602
OPERATING INCOME	606	4,521	3,405
NONOPERATING REVENUES (EXPENSES)			
Grant revenue and contributions	3,843	4,054	4,125
Investment income	1,242	506	1,316
Interest expense	(5,352)	(5,124)	(5,106)
Total nonoperating expenses, net	(267)	(564)	335
Change in net position	$ 339	$ 3,957	$ 3,740

The following is an explanation of the significant changes between fiscal years as show 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 $3,915 or 86.6% in 2014 as compared to 2013 and increased $1,116 or 32.8% in 2013 as compared to 2012. The primary components of the changes in operating income are as follows:

Changes from fiscal 2013 to 2014

Net patient service revenue for the District decreased by $1,148 or 0.3% in 2014 compared to 2013. The District reported a net decrease in acute patient days of 9.6% from 2014 compared to 2013 and realized a 5.8% increase in net patient service revenue per adjusted patient day. The District recognized revenue from various supplemental funding sources including the IGT Program, Disproportionate Share funding, and the Hospital Fee Program totaling $28,121 and $32,288 in 2014 and 2013, respectively. The decrease in supplemental funding is due primarily to delay in approval from the CMS on the 2014 Hospital Fee Program preventing the District from recognizing such revenue until final approval is obtained.

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

Operating Revenue, Other for the District increased by $6,409 or 147.5% in 2014 compared to 2013. In 2014, the District received $6,115 to support the electronic medical record investment via both Medicare and Medi-Cal Meaningful Use payments. The Meaningful Use program became available to the District in 2014. The District expects to earn lesser amounts in the next three years as implementation of approved electronic medical records projects continue.

Operating expenses increased $9,176 or 2.6% in 2014 as compared to 2013. $7,192 of the increase is primarily due to higher levels of staffing and increased employee benefit expenses. Actual non-productive and registry expenses were down year to year by $4,163 or 14.2%. The remaining change was primarily due to an increase in contract labor (including registry), an increase of professional fees (including on-call fees paid to physicians), and an increase in legal fees (including fees associated with union negotiations). Medical supply costs were also up due to higher use of implants and other high cost supplies.

Changes from fiscal 2012 to 2013

Net patient service revenue for the District increased by $5,140 or 1.5% in 2013 as compared to 2012. While the District reported a net decrease in acute patient days of 0.3% from 2013 as compared to 2012, the District realized a 1.6% increase in net patient service revenue per adjusted patient day. The District recognized revenue from various supplemental funding sources including the IGT Program, Disproportionate Share funding, and the Hospital Fee Program totaling $28,121 and $32,288 in 2013 and 2012, respectively. The decrease in supplemental funding and acute patient days was primarily offset by changes in estimates on estimated third party payor settlements in 2013 of $5,400, resulting in an overall increase in net patient service revenue.

Operating expenses increased $3,702 or 1.1% in 2013 as compared to 2012. The District paid $5,621 into the IGT Program in 2013 compared to $7,963 in 2012 which is included in other operating expenses in Table 2. S*alaries and wages and employee benefits* decreased by $6,933 or 3.2% from 2012 to 2013 primarily due to decreased volumes although the decrease included union representation for which annual increases were negotiated. Also, an annual increase in compensation levels was approved for employees not represented by the unions. *Purchased services and professional fees* increased $9,118 or 22.1% in 2013 as compared to 2012 due to an increase of $5,954 in contract labor (including registry), an increase of $971 in professional fees (including on-call fees paid to physicians), an increase in legal fees of $832 (including fees associated with union negotiations) and $328 for other contracts.

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 $12,780 or 369.4% from 2013 to 2014 mainly due to an increase in patient related collections and the receipt of Meaningful Use funds. In 2013, net cash provided by operating activities decreased mainly due to the increase in net patient accounts receivable and changes in estimated third party payor settlements. In 2012, net cash provided by operating activities increased mainly due to the decrease in patient accounts receivable and the increase in accounts payable and accrued expenses.

Capital Asset and Debt Administration Capital Assets

At the end of 2014, 2013 and 2012, respectively, the District had $178,428, $ 169,273 and $160,581 in capital assets, net of accumulated depreciation, as detailed in Note 6 to the basic consolidated financial statements. The District purchased new equipment which included information technology and other minor infrastructure projects costing $1,963 in 2014, $1,697 in 2013 and $5,483 in 2012. Also during 2014, 2013 and 2012, $19,748, $19,403 and $25,463, respectively, was expended on land, buildings and leasehold improvements for the District Master Plan renovation, which includes upgrades to the Central Plant, Catheterization Lab expansion, Canopy addition and new parking lot redesign.

Debt

The District had $130,486, $135,684 and $141,113 in outstanding debt at June 30, 2014, 2013 and 2012, respectively, comprised of revenue bonds, notes payable and capital lease obligations as detailed in Note 10 to the basic consolidated financial statements. The District entered into new capital lease obligations totaling $1,494 in 2014 and $407 in 2013. The District's formal debt issuances are subject to limitations imposed by state law. In February 2014, Moody's reduced the District's Baa3 rating to Ba2 with an outlook of negative. That rating was affirmed in early November 2014.

Economic Factors on the Fiscal Year 2014 Budget and Beyond

The next two to five years will see additional significant capital expenditures on the seismic retrofits and building of new facilities, necessary purchase and upgrading of the District's Information Systems to meet Meaningful Use requirements, and continued need to replace outdated equipment.

The challenge of meeting these capital needs becomes more difficult as reimbursement for services continues to decline. On the federal level, the provisions of the Affordable Care Act have already begun and cuts from the sequestration were experienced in fiscal year 2013. Penalties and loss of Medicare reimbursement for re-admissions and value based purchasing will continue to increase each year. Other penalties and loss of reimbursement for poor quality measures and patient experience are on the horizon.

On the State level, the California legislature continues to change reimbursement laws and regulations to create continued uncertainty over future healthcare reimbursement. Medi-Cal reimbursement has been reduced significantly with across-the-board rate cuts and the State is moving to several new methods of reimbursement in 2014 which will further reduce reimbursement on a go-forward basis. The effects of these reductions are considered particularly troublesome with the expected Medi-Cal expansion from the introduction of the State exchanges. In addition, there is still uncertainty of certain IGT, Hospital Fee, and other funding programs as the Centers for Medicare & Medicaid Services continue to delay approval of certain legislatively created programs that go back to January 1, 2014.

A long standing challenge for the District is a weak local economy and challenging payor mix. Unfunded legislation mandated by the state of California relative to staffing ratios, and increased clinical quality and safety standards that are tied to government reimbursement contributes to higher staffing costs, increased uncompensated care expense, and lower reimbursement.

Statutory regulations applied to workers' compensation insurance benefits in the state of California over the past few years continue to adversely affect the District's workers' compensation costs despite the District's continued focus on overall employee health and safety. Growing medical costs has resulted in increased employee medical insurance expense, although the District has tried to mitigate some of the costs by moving to a self-insured plan.

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.

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATED STATEMENTS OF NET POSITION

	June 30, 2014	June 30, 2013 As Adjusted
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 16,024,362	$ 10,520,648
Short-term investments	34,248,517	45,172,239
Restricted cash and investments, current	2,329,554	3,207,016
Patient accounts receivable, net of estimated uncollectible accounts of $28,334,916 in 2014 and $39,933,623 in 2013	51,858,314	48,953,512
Other receivables, net of estimated uncollectible accounts of $805,740 in 2014 and $739,701 in 2013	5,254,493	4,655,423
Supplies inventory	5,494,891	5,241,785
Prepaid expenses and other current assets	2,515,717	2,437,045
Estimated third-party payor settlements	4,345,044	6,915,885
Total current assets	122,070,892	127,103,553
NONCURRENT CASH AND INVESTMENTS		
Held by trustee for debt service	14,074,620	19,454,601
Less amounts required to meet current obligations	2,292,554	2,378,511
	11,782,066	17,076,090
Other long-term investments	58,523,931	54,291,004
Total noncurrent cash and investments	70,305,997	71,367,094
CAPITAL ASSETS, net	178,428,043	169,273,284
OTHER ASSETS	170,838	208,082
Total noncurrent assets	248,904,878	240,848,460
TOTAL ASSETS	$ 370,975,770	$ 367,952,013

	June 30, 2014	June 30, 2013 As Adjusted
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 19,626,498	$ 17,156,410
Accrued payroll and related expenses	18,799,335	22,083,984
Current maturities of long-term debt	7,104,310	6,692,560
Accrued workers' compensation and professional liability claims, current portion	6,598,000	5,515,000
Accrued interest payable	2,292,554	2,378,511
Total current liabilities	54,420,697	53,826,465
LONG-TERM DEBT, net of current portion	123,381,530	128,991,607
ACCRUED WORKERS' COMPENSATION AND PROFESSSIONAL LIABILITY CLAIMS, net of current portion	14,690,141	14,521,142
PENSION AND OPEB LIABILITIES	62,440,427	54,909,160
Total liabilities	254,932,795	252,248,374
NET POSITION		
Net investment in capital assets	62,016,823	53,043,718
Restricted, expendable for:		
Workers' compensation collateral	37,000	44,133
Specific operating activities	652,274	645,564
Restricted, non-expendable for minority interests	534,814	561,346
Unrestricted	52,802,064	61,408,878
Total net position	116,042,975	115,703,639
Total liabilities and net position	$ 370,975,770	$ 367,952,013

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended June 30, 2014	2013 As Adjusted
OPERATING REVENUES		
Net patient service revenue, net of provision for uncollectible accounts of $29,471,370 in 2014 and $34,794,160 in 2013	$ 349,333,378	$ 350,481,189
Other revenue	10,752,504	4,343,933
Total operating revenues	360,085,882	354,825,122
OPERATING EXPENSES		
Salaries and wages	160,646,887	158,413,694
Employee benefits	54,234,474	49,275,357
Fees to individuals and organizations	27,220,398	29,270,246
Purchased services	22,021,303	21,039,935
Supplies and other expenses	82,835,730	79,625,065
Depreciation and amortization	12,521,233	12,679,331
Total operating expenses	359,480,025	350,303,628
OPERATING INCOME	605,857	4,521,494
NONOPERATING REVENUES (EXPENSES)		
Grant revenue and contributions	3,842,563	4,054,380
Investment income	1,242,483	505,753
Interest expense	(5,351,567)	(5,123,919)
Total nonoperating expenses, net	(266,521)	(563,786)
Change in net position	339,336	3,957,708
NET POSITION, Beginning of year, as adjusted (Note 1)	115,703,639	111,745,931
NET POSITION, End of year, as adjusted	$ 116,042,975	$ 115,703,639

	Years Ended June 30, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	$ 348,977,802	$ 328,981,160
Payments to suppliers and contractors	(132,256,578)	(128,923,236)
Payments to employees	(210,634,743)	(200,851,846)
Other receipts and payments, net	10,153,434	4,253,392
Net cash provided by operating activities	16,239,915	3,459,470
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from grants and contributions	3,864,178	4,007,007
Net cash provided by noncapital financing activities	3,864,178	4,007,007
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(14,956,799)	(17,018,400)
Principal repayments on long-term debt	(6,692,560)	(5,835,153)
Interest payments on long-term debt	(7,055,784)	(7,156,414)
Net cash used in capital and related financing activities	(28,705,143)	(30,009,967)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(48,167,349)	(152,369,536)
Proceeds from sale of investments	61,029,630	175,250,589
Interest and dividends received on investments	1,242,483	505,753
Net cash provided by investing activities	14,104,764	23,386,806
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,503,714	843,316
CASH AND CASH EQUIVALENTS, Beginning of year	10,520,648	9,677,332
CASH AND CASH EQUIVALENTS, End of year	$ 16,024,362	$ 10,520,648

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Years Ended June 30, 2014	2013
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 605,857	$ 4,521,494
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for bad debts	29,471,370	34,794,160
Depreciation and amortization	12,521,233	12,679,331
Loss on disposal of assets	35,924	90,541
Changes in assets and liabilities:		
Patient accounts receivable, net	(32,397,787)	(44,620,132)
Other receivables, net	(599,070)	(331,581)
Supplies inventory and prepaid expenses and other current assets	(331,778)	(417,200)
Estimated third-party payor settlements	2,570,841	(11,458,476)
Other assets	37,244	(56,638)
Accounts payable and accrued liabilities	(1,172,536)	2,351,624
Accrued payroll and related expenses	(3,284,649)	1,159,508
Accrued workers' compensation and professional liability claims	1,251,999	(908,999)
Pension and OPEB liabilities	7,531,267	5,655,838
Net cash provided by operating activities	$ 16,239,915	$ 3,459,470

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

	2014	2013
Capital expenditures included in accounts payable	$ 5,634,562	$ 1,991,938
Capital assets acquired through capital leases	$ 1,494,233	$ 406,730

 See accompanying notes of independent auditors.

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.

Effective July 1, 2013, the District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* Significant impacts included the write off of unamortized bond issuance costs and expensing such costs when incurred. The retroactive effects for implementing the change in reporting resulted in a change in beginning net position as set forth below:

	As Previously Reported	Adoption of GASB 65	As Adjusted
Selected Statement of Net Position Data as of June 30, 2013			
Other assets	$ 2,259,026	$ (2,050,944)	$ 208,082
Total assets	370,002,957	(2,050,944)	367,952,013
Total net position	117,754,583	(2,050,944)	115,703,639
Selected Statement of Revenues, Expenses and Changes in Net Position as of June 30, 2013			
Interest expense	(5,485,848)	361,929	(5,123,919)
Total nonoperating expenses, net	(925,715)	361,929	(563,786)
Changes in net position	3,595,779	361,929	3,957,708
Selected Statement of Net Position Data as of June 30, 2012			
Other assets	2,654,858	(2,412,873)	241,985
Total assets	366,206,329	(2,412,873)	363,793,456
Total net position	114,158,804	(2,412,873)	111,745,931
Selected Statement of Revenues, Expenses and Changes in Net Position as of June 30, 2012			
Interest expense	(5,236,199)	129,929	(5,106,270)
Total nonoperating expenses, net	205,151	129,929	335,080
Changes in net position	3,610,609	129,929	3,740,538

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

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

- 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 the organization, the District has determined that AVHF meets the criteria of a blended component unit in accordance with GASB No. 61 as the economic resources earned and held by AVHF have historically been used for the direct benefit of the District.

- 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 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 Desert Hills Sleep Disorder Center, LLC (DHSDC) is a legally separate entity operating a sleep diagnostic facility in Lancaster, California. The District owns 60% of the DHSDC and can unilaterally make operating decisions such as establishing a budget or issuing debt. The District has determined that DHSDC meets the criteria of a blended component unit under GASB No. 61 as the governing bodies are substantially the same and because the operations are managed by the District similar to other hospital departments. DHSDC ceased operations during the fiscal year ended June 30, 2014 and all operating equipment was sold or disposed.

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.

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

Condensed component unit information for each of the District's blended component units for the year ended June 30, 2014 is as follows:

Condensed Statement of Net Position

	AVOIC	DHSDC	AVHF
ASSETS			
Patient accounts receivable, net	$ 2,380,259	$ -	$ -
Other current assets	632,312	19,081	4,276,118
Capital assets, net	1,426,923	-	-
Total assets	$ 4,439,494	$ 19,081	$ 4,276,118
LIABILITIES			
Due to the District	$ 118,692	$ 81,606	$ 191,992
Other current liabilities	1,923,525	-	-
Long-term liabilities	531,203	-	-
Total liabilities	2,573,420	81,606	191,992
NET POSITION			
Net investment in capital assets	425,306	-	-
Restricted, expendable	-	-	529,970
Restricted, nonexpendable	1,000,000	280,000	-
Unrestricted	440,768	(342,525)	3,554,156
Total net position	1,866,074	(62,525)	4,084,126
Total liabilities and net position	$ 4,439,494	$ 19,081	$ 4,276,118

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

Condensed Statement of Revenues, Expenses and Changes in Net Position

	AVOIC	DHSDC	AVHF
OPERATING REVENUE			
Net patient service revenue	$ 14,002,292	$ -	$ -
Other	18,580	-	-
Total operating revenues	14,020,872	-	-
OPERATING EXPENSES			
Salaries and wages and employee benefits	4,150,357	7,257	142,667
Purchased services and professional fees	6,245,525	2,453	-
Other operating expenses	2,810,385	18,462	182,765
Depreciation and amortization	794,539	10,542	-
Total operating expenses	14,000,806	38,714	325,432
OPERATING INCOME (LOSS)	20,066	(38,714)	(325,432)
NONOPERATING REVENUES (EXPENSES)			
Grant revenue and contributions	-	-	617,069
Investment income	4	-	112,015
Interest expense	(56,891)	-	-
Total nonoperating revenues (expenses), net	(56,887)	-	729,084
Change in net position	(36,821)	(38,714)	403,652
Beginning net position	1,902,895	(23,811)	3,680,474
Ending net position	$ 1,866,074	$ (62,525)	$ 4,084,126

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

Condensed Statement of Cash Flows

	AVHD	DHSDC	AVHF
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from and on behalf of patients	$ 14,237,283	$ 7,743	$ -
Payments to suppliers and contractors	(9,319,670)	(19,343)	(61,489)
Payments to employees	(4,018,929)	(2,892)	(142,667)
Other receipts and payments, net	6,585	8,000	729,084
Net cash provided by (used in) operating activities	905,269	(6,492)	524,928
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(5,799)	-	-
Principal repayments on long-term debt	(566,014)	-	-
Interest payments on long-term debt	(56,891)	-	-
Net cash used in capital and related financing activities	(628,704)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received on investments	4	-	-
Net cash provided by investing activities	4	-	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	276,569	(6,492)	524,928
CASH AND CASH EQUIVALENTS, Beginning of year	241,462	25,633	2,726,688
CASH AND CASH EQUIVALENTS, End of year	$ 518,031	$ 19,141	$ 3,251,616

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 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:

Management's discussion and analysis - Basic financial statements, including statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows using the direct method for the District as a whole.

Note 2 – Summary of Significant Accounting Policies (continued)

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.

Cash and cash equivalents – The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2014 and 2013, cash equivalents consisted primarily of money market accounts with brokers.

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 for the 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 payers, 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 payers 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.

Note 2 – Summary of Significant Accounting Policies (continued)

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

The District capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowings. As described in note 1, effective July 1, 2013, the District implemented GASB Statement No. 65 which retroactively expensed certain deferred bond issuance costs. The interest charged to expense for the year ended June 30, 2013 has been reduced to reflect this adjustment. Total interest capitalized and incurred during fiscal years ended June 30, 2014 and 2013 was as follows:

	2014	2013 As Adjusted
Interest capitalized	$ 1,618,260	$ 1,592,520
Interest charged to expense	5,351,567	5,123,919
Total interest incurred	$ 6,969,827	$ 6,716,439

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. There were no impairment losses recorded in the years ended June 30, 2014 and 2013.

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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 payers 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 payers 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 fiscal 2014, the District increased its estimated amounts due from third-party payers and increased net patient service revenue by approximately $1.3 million due to changes in accounting estimates related to prior periods. During fiscal 2013, the District reduced its estimated amounts due to third-party payers and increased net patient service revenue by approximately $5.4 million 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. These differences decreased net patient service revenue by approximately $1.7 million for the year ended June 30, 2013. Differences in 2014 were not significant.

Note 2 – Summary of Significant Accounting Policies (continued)

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 115 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.

Grant and contribution income – During 2014 and 2013, the District received approximately $3,186,000 and $3,001,000 respectively in grant revenues from the federal government. These funds were recognized as other operating revenue when the funds were expended for the purpose specified by the grantee. In addition, during 2014 and 2013 the District received approximately $656,000 and $1,053,000, 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 are all expenses incurred to provide health care services, other than financing costs.

Reclassifications – Certain prior year amounts were reclassified to conform to the current year presentation.

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.

Adoption of accounting pronouncements in current year – As described in Note 1, effective July 1, 2013, the District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.*

Note 2 – Summary of Significant Accounting Policies (continued)

Accounting pronouncements impacting future years – In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which is effective for financial statements for periods beginning after June 15, 2014. The statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and GASB Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The District is reviewing the impact of the adoption of GASB 68 for the year ending June 30, 2015.

Note 3 – Net Patient Service Revenue

The District has agreements with third-party payers 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, 2012.

Medi-Cal – Prior to July 1, 2013 inpatient services rendered to Medi-Cal program beneficiaries were reimbursed based on the District's cost report filed five months after the calendar year end which established predetermined reimbursement rates as a percent of charges with final settlement determined after submission of the annual cost report and audited by Medi-Cal. Effective July 1, 2013, 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.

Approximately 71% and 65% of net patient service revenue is from participation in the Medicare and state-sponsored Medi-Cal programs for the years ended June 30, 2014 and 2013, 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.

Note 3 – Net Patient Service Revenue (continued)

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:

	2014	2013
Cash on hand	$ 8,805	$ 8,805
Deposits	21,975,105	21,581,979
Investments	100,924,520	108,676,213
Total cash and investments	$ 122,908,430	$ 130,266,997

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

	2014	2013
Cash and cash equivalents	$ 16,024,362	$ 10,520,648
Short-term investments	34,248,517	45,172,239
Restricted cash and investments — current	2,329,554	3,207,016
Noncurrent cash and investments	70,305,997	71,367,094
Total cash and investments	$ 122,908,430	$ 130,266,997

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.

At June 30, 2014 and 2013 approximately $13,055,000 and $9,871,000 of the District's bank balances respectively, 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 $3,789,000 and $2,994,000 at June 30, 2014 and 2013, respectively. As nongovernmental entities, the blended component units are not subject to the collateralization requirements. At June 30, 2014 and 2013, the blended component units' cash accounts are uncollateralized and exceeded federally insured limits by approximately $2,581,000 and $1,668,000, respectively.

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

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.

At June 30, 2014, the District had the following investments and maturities:

		Investment Maturities (In Years)		
Investment Type	Fair Value	Less Than 1	1-5	More Than 5
External investment pool - LAIF	$ 21,071,810	$ 21,071,810	$ -	$ -
U.S. instrumentalities	25,334,140	3,504,281	21,829,859	-
Corporate bonds	20,936,018	1,009,830	19,926,188	-
U.S. Treasury	21,954,877	5,004,102	16,950,775	-
Commercial paper	3,246,794	3,246,794	-	-
Held by trustee:				
U.S. instrumentalities	2,586,719	-	2,586,719	-
Corporate bonds	4,137,410	844,207	3,293,203	-
Municipal bonds	748,785	748,785	-	-
Foreign bonds	496,267	-	496,267	-
		$ 35,429,809	$ 65,083,011	$ -
Accrued interest receivable	411,700			
	$ 100,924,520			

At June 30, 2013, the District had the following investments and maturities:

		Investment Maturities (In Years)		
Investment Type	Fair Value	Less Than 1	1-5	More Than 5
External investment pool - LAIF	$ 28,014,266	$ 28,014,266	$ -	$ -
U.S. instrumentalities	44,716,276	10,223,486	34,492,790	-
Corporate bonds	15,361,245	4,525,599	10,835,646	-
U.S. Treasury	9,120,118	-	9,120,118	-
Commercial paper	1,998,290	1,998,290	-	-
Held by trustee:				
U.S. instrumentalities	3,900,921	489,569	3,411,352	-
Corporate bonds	3,274,921	1,805,940	1,468,981	-
Municipal bonds	1,879,577	606,016	1,273,561	-
		$ 47,663,166	$ 60,602,448	$ -
Accrued interest receivable	410,599			
	$ 108,676,213			

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

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. At June 30, 2014 and 2013 the District's investments not directly guaranteed by the U.S. government were rated as follows:

Investment Type	Moody's	S&P
External investment pool - LAIF	Not Rated	Not Rated
U.S. instrumentalities	Aaa	AA+
Corporate bonds	Aaa to A2	AAA to A+
U.S. Treasury	Aaa	AA+
Commercial paper	P-1	A-1

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 at June 30, 2014 and 2013 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 law.

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

	2014		2013	
Investment Type	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
Federal National Mortgage Association	$ 4,263,639	5%	$ 16,014,613	16%
Federal Home Loan Mortgage Corporation	16,511,264	18%	18,556,054	19%
U.S. Treasury Securities	21,954,877	24%	9,120,118	9%
Federal Home Loan Bank	2,573,403	3%	5,753,961	6%

Investment Income – Investment income for the years ended June 30 consisted of:

	2014	2013
Interest, dividends and realized gains on sales of investments	$ 951,975	$ 1,032,750
Net increase (decrease) in fair value of investments	290,508	(526,997)
	$ 1,242,483	$ 505,753

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

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 financial statements 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.

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 payer agreements. Gross patient accounts receivable at June 30 consisted of:

	2014	2013
Medicare	27 %	24 %
Medi-Cal	44	41
Other third-party and commercial payor	22	23
Self pay	7	12
Total	100 %	100 %

Note 6 – Capital Assets

Capital assets activity for the years ended June 30 was as follows:

	Beginning Balance June 30, 2013	Additions	Deletions	Transfers	Ending Balance June 30, 2014
Land	$ 9,869,241	$ -	$ -	$ -	$ 9,869,241
Land improvements	12,987,558	38,622	(113,279)	10,771,404	23,684,305
Buildings and leasehold improvements	131,893,799	18,819	-	6,651,822	138,564,440
Equipment	168,744,255	1,963,307	(407,259)	9,270,625	179,570,928
Construction in progress	48,514,557	19,691,168	-	(26,693,851)	41,511,874
	372,009,410	21,711,916	(520,538)	-	393,200,788
Less accumulated depreciation:					
Land improvements	8,666,628	763,072	(113,279)	-	9,316,421
Buildings and leasehold improvements	60,949,775	3,636,329	-	-	64,586,104
Equipment	133,119,723	8,121,832	(371,335)	-	140,870,220
	202,736,126	12,521,233	(484,614)	-	214,772,745
	$ 169,273,284	$ 9,190,683	$ (35,924)	$ -	$ 178,428,043

	Beginning Balance June 30, 2012	Additions	Deletions	Transfers	Ending Balance June 30, 2013
Land	$ 9,869,241	$ -	$ -	$ -	$ 9,869,241
Land improvements	12,396,278	109,848	-	481,432	12,987,558
Buildings and leasehold improvements	128,207,932	82,173	(795,466)	4,399,160	131,893,799
Equipment	167,867,531	1,696,977	(2,054,776)	1,234,523	168,744,255
Construction in Progress	35,418,541	19,211,131	-	(6,115,115)	48,514,557
	353,759,523	21,100,129	(2,850,242)	-	372,009,410
Less accumulated depreciation:					
Land improvements	8,071,032	595,596	-	-	8,666,628
Buildings and leasehold improvements	58,292,473	3,381,166	(723,864)	-	60,949,775
Equipment	126,814,920	8,340,640	(2,035,837)	-	133,119,723
	193,178,425	12,317,402	(2,759,701)	-	202,736,126
	$ 160,581,098	$ 8,782,727	$ (90,541)	$ -	$ 169,273,284

Construction commitments for various construction projects totaled approximately $3,829,000 and $13,827,000 as of June 30, 2014 and 2013, respectively.

Note 7 – 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. These unpaid claim liabilities were discounted at 4% in 2014 and in 2013 to account for the time value of money to determine the current estimated liabilities as reflected below. It is reasonably possible that the District's estimate of losses will change by a material amount in the near term. Activity in the District's accrued workers' compensation claims liability during 2014 and 2013 is summarized as follows:

	2014	2013
Balance, beginning of the year	$ 13,149,142	$ 13,444,141
Current year claims incurred and changes in estimates for claims incurred in the prior year	3,160,909	1,355,686
Claims and expenses paid	(2,833,910)	(1,650,685)
Balance, end of year	$ 13,476,141	$ 13,149,142

Note 8 – 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. Prior to July 1, 2011, the District's annual aggregate coverage was $3,500,000.

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 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. These unpaid claim liabilities were discounted at 4.0% in 2014 and in 2013 to account for the time value of money to determine the current estimated liabilities as reflected below. It is reasonably possible that this estimate could change materially in the near term.

Note 8 – Medical Malpractice Claims (continued)

Activity in the District's accrued medical malpractice claims liability during 2014 and 2013 is summarized as follows:

	2014	2013
Balance, beginning of the year	$ 6,887,000	$ 7,501,000
Current year claims incurred and changes in estimates for claims incurred in the prior years	1,604,654	2,225,332
Claims and expenses paid	(679,654)	(2,839,332)
Balance, end of year	$ 7,812,000	$ 6,887,000

Note 9 – 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 $1,168,000 and $1,169,000 at June 30, 2014 and 2013, respectively, and are included in accrued payroll and related expenses.

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 10 – Long-Term Obligations

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

2014

	Beginning Balance	Additions	Payments	Ending Balance	Due Within 1 Year
Series 2002A District Revenue Bonds (A)	$ 55,000,000	$ -	$ -	$ 55,000,000	$ -
Series 1997A District Insured Refunding Revenue Bonds (B)	21,280,000	-	(2,185,000)	19,095,000	2,300,000
Series 1997B District Insured Revenue Bonds (C)	13,330,000	-	(670,000)	12,660,000	705,000
Series 2010A Fixed Rate Revenue Bonds (D)	23,084,624	-	(1,210,474)	21,874,150	2,074,024
Series 2011A Fixed Rate Revenue Bonds (E)	18,125,000	-	(300,000)	17,825,000	300,000
Notes payable	624,748	-	(530,720)	94,028	94,028
Capital lease obligations	4,239,795	1,494,233	(1,796,366)	3,937,662	1,631,258
Total long-term debt	$ 135,684,167	$ 1,494,233	$ (6,692,560)	$ 130,485,840	$ 7,104,310

2013

	Beginning Balance	Additions	Payments	Ending Balance	Due Within 1 Year
Series 2002A District Revenue Bonds (A)	$ 55,000,000	$ -	$ -	$ 55,000,000	$ -
Series 1997A District Insured Refunding Revenue Bonds (B)	23,360,000	-	(2,080,000)	21,280,000	2,185,000
Series 1997B District Insured Revenue Bonds (C)	13,970,000	-	(640,000)	13,330,000	670,000
Series 2010A Fixed Rate Revenue Bonds (D)	23,403,426	-	(318,802)	23,084,624	1,210,474
Series 2011A Fixed Rate Revenue Bonds (E)	18,425,000	-	(300,000)	18,125,000	300,000
Notes payable	1,799,749	-	(1,175,001)	624,748	530,720
Capital lease obligations	5,154,415	406,730	(1,321,350)	4,239,795	1,796,366
Total long-term debt	$ 141,112,590	$ 406,730	$ (5,835,153)	$ 135,684,167	$ 6,692,560

Revenue bonds payable

A. Due September 1, 2017; principal payable at maturity plus interest at a rate of 5.25%; secured by a pledge of the District's gross revenues and trustee-held assets. The agreement is subject to certain financial covenants, including net income to annual debt service ratio.

B. Due January 1, 2020; principal payable annually beginning January 1, 2013 plus semiannual interest payments at interest rates from 5.00% to 5.20%; secured by pledge of the District's gross revenues and trustee-held assets. The agreement is subject to certain financial covenants, including minimum liquidity, net income to annual debt service ratio, indebtedness ratio and a minimum medical malpractice insurance coverage.

C. Due January 1, 2027; principal payable annually plus semiannual interest payments at a fixed rate of 5.20%; secured by pledge of the District's gross revenues and trustee-held assets. The agreement is subject to certain financial covenants, including minimum liquidity, net income to annual debt service ratio, indebtedness ratio and a minimum medical malpractice insurance coverage.

Note 10 – Long-Term Obligations (continued)

D. Due December 1, 2020; private placement bond issuances of $25,000,000. Principal and interest payable monthly at fixed interest rates 4.82%; secured by pledge of the District's gross revenue and trustee-held assets. The agreement is subject to certain financial covenants, including minimum liquidity, net income to annual debt service ratio, indebtedness ratio and a minimum medical malpractice insurance coverage. A portion of the proceeds in the amount of $10,000,000 was used to pay the Series 1997A District Insured Refunding Revenue Bonds.
E. Due March 1, 2036; the agreement was executed via three separate bond issuances of $10,000,000, $3,620,000, and $5,105,000. Principal payable annually plus semiannual interest payment at fixed interest rates from 6.875% to 7.25%, respectively; secured by pledge of the District's gross revenue and trustee-held assets. The agreement is subject to certain financial covenants, including minimum liquidity, net income to annual debt service ratio, indebtedness ratio and a minimum medical malpractice insurance coverage.

The indenture agreements for the Series 2002A Bonds, the Series 1997A and 1997B Bonds and the Series 2010A and Series 2011A Bonds require that certain funds be established with the trustees. Accordingly, these funds are included as assets held by the trustee for debt service and capital acquisitions in the statements of net position.

The indenture agreements for the Series 1997A and 1997B Bonds, the Series 2002A Bonds, and the Series 2010A and Series 2011A Bonds also place certain limits on the incurrence of additional borrowings and require that the District satisfy certain measures of financial performance as long as the bonds are outstanding. As of June 30, 2014, the District was not in compliance with the net income to annual debt service coverage ratio. As a result, the District is required by the bond holders to retain a management consultant to remedy non-compliance with this covenant. As long as these actions are taken, the covenant violation does not constitute an event of default under the terms of the indenture agreements.

The bond service requirements as of June 30, 2014, are as follows:

Years Ending June 30	Total to be Paid	Principal	Interest
2015	$ 12,109,611	$ 5,379,024	$ 6,730,587
2016	12,183,947	5,738,527	6,445,420
2017	65,094,807	61,355,667	3,739,140
2018	11,560,895	8,677,753	2,883,142
2019	12,441,538	10,046,821	2,394,717
2020 - 2024	27,685,607	20,766,358	6,919,249
2025 - 2029	11,678,600	7,790,000	3,888,600
2030 - 2034	6,263,125	4,440,000	1,823,125
2035 - 2038	2,508,675	2,260,000	248,675
Total	$ 161,526,805	$ 126,454,150	$ 35,072,655

Note 10 – Long-Term Obligations (continued)

Notes payable – The District has multiple notes payable agreements with varying principal due dates and interest rates. The notes are secured by equipment and currently have due dates maturing in 2015. Each note's principal balance is due monthly with varying interest rates ranging from 3.67% to 3.81%. The debt service requirements as of June 30, 2014, are as follows:

Years Ending June 30	Total to be Paid	Principal	Interest
2015	$ 94,794	$ 94,028	$ 766
Total	$ 94,794	$ 94,028	$ 766

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 $16,606,000 and $15,112,000, at June 30, 2014 and 2013, respectively, net of accumulated depreciation of approximately $10,588,000 and $9,604,000 at June 30, 2014 and 2013, respectively.

The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates of 2.59% to 8.65% together with the present value of the future minimum lease payments as of June 30, 2014:

Years Ending June 30	
2015	$ 1,705,734
2016	1,291,315
2017	430,488
2018	288,389
2019	329,550
Total minimum lease payments	4,045,476
Less amount representing interest	107,814
Present value of future minimum lease payments	$ 3,937,662

Note 11 – Restricted Net Position

At June 30, 2014 and 2013 restricted expendable net position was available for the following purposes:

	2014	2013
Workers' compensation collateral	$ 37,000	$ 44,133
Specific operating activities	652,274	645,564
Total restricted expendable net position	$ 689,274	$ 689,697

Note 12 – Pension Plans

403(b) defined contribution plan – The District contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the District's required contributions determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the District's governing body. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the District's governing body. Contribution rates for plan members, expressed as a percentage of covered payroll, were 5.3% and 5.5% for 2014 and 2013, respectively. Contributions made by the District were approximately $7,227,000 and $7,584,000 during 2014 and 2013, respectively. There were no plan member contributions during 2014 or 2013.

Defined benefit pension plan – The Antelope Valley Hospital Medical Center Retirement Plan (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 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. 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.

Funding policy **–** 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. The District contributes such amounts, if any, as it determines to be appropriate each year.

Note 12 – Pension Plans (continued)

Annual pension cost and net pension obligation – The District's annual pension cost and net pension obligation to the plan were as follows:

	2014	2013
Annual required contribution	$ 17,804,538	$ 16,717,000
Interest on net pension obligation	4,238,269	3,810,221
Adjustments to annual required contribution	(7,895,434)	(7,098,027)
Annual pension cost	14,147,373	13,429,194
Contributions made	(7,226,851)	(8,079,588)
Increase in net pension obligation	6,920,522	5,349,606
Net pension obligation at beginning of year	52,978,361	47,628,755
Net pension obligation at end of year	$ 59,898,883	$ 52,978,361

The annual required contributions for 2014 and 2013 were determined as part of actuarial valuations on July 1, 2013 and July 1, 2012, respectively, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) an 8% investment rate of return in both 2014 and 2013 and (b) projected salary increases of up to 7.5% per year in both 2014 and 2013.

The District shall contribute actuarially determined amounts as are deemed necessary to fund the benefits under the Plan. As of June 30, 2014, the Plan is approximately 63% funded based on the actuarial value of assets. As of June 30, 2013, the Plan was approximately 62% funded based on the actuarial value of assets. The annual pension cost is approximately $14,147,000 for the year ended June 30, 2014 and was approximately $13,429,000 for the year ended June 30, 2013. The annual required contribution is approximately $17,805,000 for the year ended June 30, 2014 and was approximately $16,717,000 for the year ended June 30, 2013.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Trend information:

Years Ending June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2014	$ 14,147,373	51.08%	$ 59,898,883
2013	$ 13,429,194	60.16%	$ 52,978,361
2012	$ 12,131,587	56.71%	$ 47,628,755

Funding status and funding progress – The following is funded status information as of July 1, 2013, the most recent actuarial valuation date.

Note 12 – Pension Plans (continued)

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a) / c
$ 112,299,085	$ 178,628,011	$ 66,328,926	62.9%	$ 136,714,925	48.5%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Note 13 – Other Benefit Plans

Postretirement health plan – The District's postretirement health care plan is a single-employer plan administered by the District's governing body. The authority to establish and amend benefit provisions, subject to collective bargaining agreements, is vested in the District's governing body. Under certain collective bargaining agreements (C.N.A. union contract), effective with retirements on or after July 1, 2006, the District provides health care coverage to eligible retirees. A retiree is eligible to receive these benefits if they earned at least 15 years of Benefited Service (as defined in the agreements) as a nurse with the District, including five years of continuous Benefited Service on the date of retirement, and they retired from active service with the District while eligible to receive a pension benefit from the District.

Retirees under age 65 are eligible to participate in the least expensive medical plan offered by the District to its nurses. This coverage ceases for retirees upon attainment of age 65. The District contributes a percentage of the premiums for the retiree based on years of Benefited Service, and the District's contribution level is frozen as of the date of retirement and does not increase with postretirement medical trend increases.

Funding policy **–** The plan is a pay-as-you-go plan and, therefore, is not funded. The District funds the plan on a cash basis as benefits are paid. No assets have been segregated or restricted to provide plan benefits.

Annual OPEB cost and net OPEB obligation – The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the years ended June 30, 2014 and 2013, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan:

Note 13 – Other Benefit Plans (continued)

	2014	2013
Normal cost	$ 430,637	$ 222,410
Amortization of UAAL	249,972	134,528
Annual required contribution	680,609	356,938
Interest on prior year net OPEB obligation	72,405	64,983
Adjustment to annual required contribution	(128,720)	(110,403)
Annual OPEB cost	624,294	311,518
Benefits paid	(13,549)	(5,286)
Increase in net OPEB obligation	610,745	306,232
Net OPEB obligation at beginning of year	1,930,799	1,624,567
Net OPEB obligation at end of year	$ 2,541,544	$ 1,930,799

The District provides health insurance benefits for C.N.A. retirees who are age 55 or older and earned at least 15 years of benefitted service on the date of retirement. Retirees under the age of 65 are entitled to receive health care benefits until age 65 under the Plan. In addition, the District contributes a percent of the medical premiums based upon the employee's years of Benefited Service at retirement.

As of July 1, 2012, the most recent actuarial valuation date, the plan was unfunded. The OPEB obligation as of June 30, 2014 and 2013 is approximately $2,542,000 and $1,931,000, respectively. The annual obligation cost for the years ended June 30, 2014 and 2013 is approximately $624,000 and $312,000, respectively. The ARC for the years ended June 30, 2014 and 2013 is approximately $681,000 and $357,000, respectively.

The ARC for 2014 and 2013 was determined as part of an actuarial valuation on July 1, 2012. For measurement purposes, a 7.75% and 7% annual rate of increase in the per capita cost of covered health care was assumed for 2014 and 2013, respectively, with such annual rate of increase gradually declining to 5.5% in the 13th year and after. The expected long-term annual investment return discount rate used in estimating the accumulated postretirement benefit obligation was 3.75% at June 30, 2014 and 2013. The actuarial cost method used was Projected Unit Credit. The amortization method used was Level Dollar over a remaining amortization period of 15 years.

Trend information – The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the last three years were as follows:

Years Ending June 30	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2014	$ 624,294	2.2%	$ 2,541,544
2013	311,518	1.7%	1,930,799
2012	288,669	2.8%	1,624,567

Note 13 – Other Benefit Plans (continued)

Funded status and funding progress – The following is funded status information as of July 1, 2012, the most recent actuarial valuation date.

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a) / c
$ -	$ 3,095,719	$ 3,095,719	0.0%	$ 1,774,716	174.4%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Note 14 – 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.

Labor agreements – A substantial portion of the District's staff is covered by two collective bargaining agreements, one of which expired in June 2013 while the other expires in July 2015. Negotiations are currently in process on the expired collective bargaining agreement, though the ultimate outcome is not known at this time.

Note 14 – Contingencies (continued)

Operating leases – The District leases certain office space under operating lease agreements. Total lease expense amounted to approximately $2,494,000 and $1,951,000 in the fiscal years ended June 30, 2014 and 2013, respectively. The District subleases certain office suites to other businesses. Minimum future lease payments and sublease rental income offsets on existing non-cancelable leases as of June 30, 2014 are as follows:

	Minimum Future Lease Payments	Sublease Rental Income	Net
2015	$ 3,608,944	$ (1,260,479)	$ 2,348,465
2016	3,385,427	(1,260,479)	2,124,948
2017	4,114,844	(1,260,479)	2,854,365
2018	3,026,567	(1,260,479)	1,766,088
2019	2,466,535	(1,260,479)	1,206,056
Thereafter	16,977,419	(12,079,593)	4,897,826
Total minimum lease payments	$ 33,579,736	$ (18,381,988)	$ 15,197,748

Marketable securities – The District invests in various investment securities (see Note 4). Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated statements of net position.

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.

Note 14 – Contingencies (continued)

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 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 in fiscal 2011; as of June 30, 2014 approximately $127,000 was accrued and for the year ended June 30, 2014 approximately $1,431,000 was repaid. As of June 30, 2013, approximately $1,584,000 was accrued and for the year ended June 30, 2014 approximately $1,817,000 was repaid.

Note 15 – 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 July 1, 2019. 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 16 – 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 required 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, was not subject to the QA Fee assessments according to the legislation but rather received net supplemental payments.

Additional legislation ("SB335") extended the Program for the period from July 1, 2011 through December 31, 2013. Again, the Program included only private hospitals but did allow for direct grants to non-designated public hospitals. The District recognized net patient service revenue of approximately $2,210,000 and $6,431,000 related to the Program in fiscal years 2014 and 2013, respectively. Legislation in September 2012 ("SB290") increased the amount of direct grant funds available to non-designated hospitals and accordingly increased the District's allocation of direct grant income related to fiscal year 2014.

Note 16 – Revenue from Governmental Programs (continued)

IGT Program – During 2013 and 2014, 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 $10,229,000 in net patient service revenue during each of the years ended June 30, 2014 and 2013. Fees paid by the District into the Program approximated $5,621,000 during each of the years ended June 30, 2014 and 2013, and are included in supplies and other expenses. Total net revenue recognized from the IGT Program totaled $4,609,000 during each of the years ended June 30, 2014 and 2013.

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 requires 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. Incentives for Medi-Cal and Medicare Meaningful Use Stage 1 Year 1 of $2,674,651 and $3,440,406 were received in fiscal 2014. These incentives are recognized following the grant accounting model, recognizing income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2014

Defined Benefit Pension Plan

Actuarial Valuation Date		Actuarial Value of Assets (a)		Actuarial Accrued Liability (AAL) (b)		Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a) / c
July 1, 2013	$	112,299,085	$	178,628,011	$	66,328,926	62.9%	$	136,714,925	48.5%
July 1, 2012	$	102,307,703	$	163,941,625	$	61,633,922	62.4%	$	138,940,618	44.4%
July 1, 2011	$	98,337,418	$	151,697,557	$	53,360,139	64.8%	$	134,153,568	39.8%

Postretirement Health Plan

Actuarial Valuation Date		Actuarial Value of Assets (a)		Actuarial Accrued Liability (AAL) (b)		Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a) / c
July 1, 2012	$	-	$	3,095,719	$	3,095,719	0.0%	$	1,774,716	174.4%
July 1, 2010	$	-	$	1,387,822	$	1,387,822	0.0%	$	1,491,088	93.1%
July 1, 2008	$	-	$	2,839,784	$	2,839,784	0.0%	$	3,928,007	72.3%

ADDITIONAL SUPPLEMENTARY INFORMATION

	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	$ 12,235,574	$ 518,031	$ 3,270,757	$ 16,024,362	$ -	$ 16,024,362
Short-term investments	34,248,517	-	-	34,248,517	-	34,248,517
Restricted cash and investments, current	2,329,554	-	-	2,329,554	-	2,329,554
Patient accounts receivable, net	49,478,055	2,380,259	-	51,858,314	-	51,858,314
Other receivables, net	4,562,069	60,272	1,024,442	5,646,783	(392,290)	5,254,493
Supplies inventory	5,441,458	53,433	-	5,494,891	-	5,494,891
Prepaid expenses and other current assets	2,515,141	576	-	2,515,717	-	2,515,717
Estimated third-party payor settlements	4,345,044	-	-	4,345,044	-	4,345,044
Total current assets	115,155,412	3,012,571	4,295,199	122,463,182	(392,290)	122,070,892
NONCURRENT CASH AND INVESTMENTS						
Held by trustee for debt service	14,074,620	-	-	14,074,620	-	14,074,620
Less amounts required to meet current obligations	2,292,554	-	-	2,292,554	-	2,292,554
	11,782,066	-	-	11,782,066	-	11,782,066
Other long-term investments	58,523,931	-	-	58,523,931	-	58,523,931
Total noncurrent cash and investments	70,305,997	-	-	70,305,997	-	70,305,997
CAPITAL ASSETS, net	177,001,120	1,426,923	-	178,428,043	-	178,428,043
OTHER ASSETS	1,107,188	-	-	1,107,188	(936,350)	170,838
Total noncurrent assets	248,414,305	1,426,923	-	249,841,228	(936,350)	248,904,878
TOTAL ASSETS	$ 363,569,717	$ 4,439,494	$ 4,295,199	$ 372,304,410	$ (1,328,640)	$ 370,975,770

(Continued)

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATING SCHEDULE OF NET POSITION (CONTINUED)
JUNE 30, 2014

	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
LIABILITIES AND NET POSITION						
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	$ 18,766,703	$ 978,487	$ 273,598	$ 20,018,788	$ (392,290)	$ 19,626,498
Accrued payroll and related expenses	18,206,019	593,316	-	18,799,335	-	18,799,335
Current maturities of long-term debt	6,633,896	470,414	-	7,104,310	-	7,104,310
Accrued workers' compensation and professional liability claims, current portion	6,598,000	-	-	6,598,000	-	6,598,000
Accrued interest payable	2,292,554	-	-	2,292,554	-	2,292,554
Total current liabilities	52,497,172	2,042,217	273,598	54,812,987	(392,290)	54,420,697
LONG-TERM DEBT, net of current portion	122,850,327	531,203	-	123,381,530	-	123,381,530
ACCRUED WORKERS' COMPENSATION AND PROFESSSIONAL LIABILITY CLAIMS, net of current portion	14,690,141	-	-	14,690,141	-	14,690,141
PENSION AND OPEB LIABILITIES	62,440,427	-	-	62,440,427	-	62,440,427
Total liabilities	252,478,067	2,573,420	273,598	255,325,085	(392,290)	254,932,795
NET POSITION						
Members' contributed capital	-	1,000,000	280,000	1,280,000	(1,280,000)	-
Net investment in capital assets	61,591,517	425,306	-	62,016,823	-	62,016,823
Restricted, expendable for:						
Workers' compensation collateral	37,000	-	-	37,000	-	37,000
Specific operating activities	122,304	-	529,970	652,274	-	652,274
Restricted, nonexpendable for minority interests	-	-	-	-	534,814	534,814
Unrestricted	49,340,829	440,768	3,211,631	52,993,228	(191,164)	52,802,064
Total net position	111,091,650	1,866,074	4,021,601	116,979,325	(936,350)	116,042,975
Total liabilities and net position	$ 363,569,717	$ 4,439,494	$ 4,295,199	$ 372,304,410	$ (1,328,640)	$ 370,975,770

See accompanying notes of independent auditors.

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
OPERATING REVENUES						
Net patient service revenue, net	$ 335,331,086	$ 14,002,292	$ -	$ 349,333,378	$ -	$ 349,333,378
Other revenue	10,824,455	18,580	-	10,843,035	(90,531)	10,752,504
Total operating revenue	346,155,541	14,020,872	-	360,176,413	(90,531)	360,085,882
OPERATING EXPENSES						
Salaries and wages	156,929,119	3,567,844	149,924	160,646,887	-	160,646,887
Employee benefits	53,651,961	582,513	-	54,234,474	-	54,234,474
Fees to individuals and organizations	20,974,873	6,245,525	-	27,220,398	-	27,220,398
Purchased services	22,018,850	-	2,453	22,021,303	-	22,021,303
Supplies and other expenses	80,100,354	2,810,385	201,227	83,111,966	(276,236)	82,835,730
Depreciation and amortization	11,716,152	794,539	10,542	12,521,233	-	12,521,233
Total operating expenses	345,391,309	14,000,806	364,146	359,756,261	(276,236)	359,480,025
OPERATING INCOME (LOSS)	764,232	20,066	(364,146)	420,152	185,705	605,857
NONOPERATING REVENUES (EXPENSES)						
Grant revenue and contributions	3,225,494	-	617,069	3,842,563	-	3,842,563
Investment income	1,130,464	4	112,015	1,242,483	-	1,242,483
Interest expense	(5,294,676)	(56,891)	-	(5,351,567)	-	(5,351,567)
Total nonoperating revenues (expenses), net	(938,718)	(56,887)	729,084	(266,521)	-	(266,521)
Income (loss) before capital contributions	(174,486)	(36,821)	364,938	153,631	185,705	339,336
CAPITAL CONTRIBUTIONS	136,400	-	-	136,400	(136,400)	-
Change in net position	(38,086)	(36,821)	364,938	290,031	49,305	339,336
NET POSITION, Beginning of year, as adjusted	111,129,736	1,902,895	3,656,663	116,689,294	(985,655)	115,703,639
NET POSITION, End of year	$ 111,091,650	$ 1,866,074	$ 4,021,601	$ 116,979,325	$ (936,350)	$ 116,042,975

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATING SCHEDULE OF NET POSITION
JUNE 30, 2013 (AS ADJUSTED)

	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	$ 7,526,865	$ 241,462	$ 2,752,321	$ 10,520,648	$ -	$ 10,520,648
Short-term investments	45,172,239	-	-	45,172,239	-	45,172,239
Restricted cash and investments, current	3,207,016	-	-	3,207,016	-	3,207,016
Patient accounts receivable, net	46,325,451	2,615,250	12,811	48,953,512	-	48,953,512
Other receivables, net	3,653,360	48,277	1,024,502	4,726,139	(70,716)	4,655,423
Supplies inventory	5,164,951	75,991	843	5,241,785	-	5,241,785
Prepaid expenses and other current assets	2,369,169	66,616	1,260	2,437,045	-	2,437,045
Estimated third-party payor settlements	6,915,885	-	-	6,915,885	-	6,915,885
Total current assets	120,334,936	3,047,596	3,791,737	127,174,269	(70,716)	127,103,553
NONCURRENT CASH AND INVESTMENTS						
Held by trustee for debt service	19,454,601	-	-	19,454,601	-	19,454,601
Less amounts required to meet current obligations	2,378,511	-	-	2,378,511	-	2,378,511
	17,076,090	-	-	17,076,090	-	17,076,090
Other long-term investments	54,291,004	-	-	54,291,004	-	54,291,004
Total noncurrent cash and investments	71,367,094	-	-	71,367,094	-	71,367,094
CAPITAL ASSETS, net	167,027,028	2,215,663	30,593	169,273,284	-	169,273,284
OTHER ASSETS	1,193,737	-	-	1,193,737	(985,655)	208,082
Total noncurrent assets	239,587,859	2,215,663	30,593	241,834,115	(985,655)	240,848,460
TOTAL ASSETS	$ 359,922,795	$ 5,263,259	$ 3,822,330	$ 369,008,384	$ (1,056,371)	$ 367,952,013

(Continued)

See accompanying notes of independent auditors.

	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
LIABILITIES AND NET POSITION						
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	$ 15,731,377	$ 1,330,845	$ 164,904	$ 17,227,126	$ (70,716)	$ 17,156,410
Accrued payroll and related expenses	21,621,333	461,888	763	22,083,984	-	22,083,984
Current maturities of long-term debt	6,126,546	566,014	-	6,692,560	-	6,692,560
Accrued workers' compensation and professional liability claims, current portion	5,515,000	-	-	5,515,000	-	5,515,000
Accrued interest payable	2,378,511	-	-	2,378,511	-	2,378,511
Total current liabilities	51,372,767	2,358,747	165,667	53,897,181	(70,716)	53,826,465
LONG-TERM DEBT, net of current portion	127,989,990	1,001,617	-	128,991,607	-	128,991,607
ACCRUED WORKERS' COMPENSATION AND PROFESSSIONAL LIABILITY CLAIMS, net of current portion	14,521,142	-	-	14,521,142	-	14,521,142
PENSION AND OPEB LIABILITIES	54,909,160	-	-	54,909,160	-	54,909,160
Total liabilities	248,793,059	3,360,364	165,667	252,319,090	(70,716)	252,248,374
NET POSITION						
Members' contributed capital	-	1,000,000	280,000	1,280,000	(1,280,000)	-
Net investment in capital assets	52,365,093	648,032	30,593	53,043,718	-	53,043,718
Restricted, expendable for:						
Workers' compensation collateral	44,133	-	-	44,133	-	44,133
Specific operating activities	100,437	-	545,127	645,564	-	645,564
Restricted, nonexpendable for minority interests	-	-	-	-	561,346	561,346
Unrestricted	58,620,073	254,863	2,800,943	61,675,879	(267,001)	61,408,878
Total net position	111,129,736	1,902,895	3,656,663	116,689,294	(985,655)	115,703,639
Total liabilities and net position	$ 359,922,795	$ 5,263,259	$ 3,822,330	$ 369,008,384	$ (1,056,371)	$ 367,952,013

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013 (AS ADJUSTED)

	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
OPERATING REVENUES						
Net patient service revenue, net	$ 336,369,560	$ 13,847,152	$ 264,477	$ 350,481,189	$ -	$ 350,481,189
Other revenue	5,522,189	16,112	15	5,538,316	(1,194,383)	4,343,933
Total operating revenue	341,891,749	13,863,264	264,492	356,019,505	(1,194,383)	354,825,122
OPERATING EXPENSES						
Salaries and wages	154,191,025	3,974,627	248,042	158,413,694	-	158,413,694
Employee benefits	48,626,004	579,090	70,263	49,275,357	-	49,275,357
Fees to individuals and organizations	22,700,622	6,567,026	2,598	29,270,246	-	29,270,246
Purchased services	21,007,527	-	32,408	21,039,935	-	21,039,935
Supplies and other expenses	78,261,050	3,310,718	327,595	81,899,363	(2,274,298)	79,625,065
Depreciation and Amortization	11,871,399	786,847	21,085	12,679,331	-	12,679,331
Total operating expenses	336,657,627	15,218,308	701,991	352,577,926	(2,274,298)	350,303,628
OPERATING INCOME (LOSS)	5,234,122	(1,355,044)	(437,499)	3,441,579	1,079,915	4,521,494
NONOPERATING REVENUES (EXPENSES)						
Grant revenue and contributions	3,013,409	-	1,040,971	4,054,380	-	4,054,380
Investment income	418,624	80	87,049	505,753	-	505,753
Interest expense	(5,079,299)	(44,620)	-	(5,123,919)	-	(5,123,919)
Total nonoperating revenues (expenses), net	(1,647,266)	(44,540)	1,128,020	(563,786)	-	(563,786)
Income (loss) before capital contributions	3,586,856	(1,399,584)	690,521	2,877,793	1,079,915	3,957,708
CAPITAL CONTRIBUTIONS	98,312	-	-	98,312	(98,312)	-
Change in net position	3,685,168	(1,399,584)	690,521	2,976,105	981,603	3,957,708
NET POSITION, Beginning of year, as adjusted	107,444,568	3,302,479	2,966,142	113,713,189	(1,967,258)	111,745,931
NET POSITION, End of year, as adjusted	$ 111,129,736	$ 1,902,895	$ 3,656,663	$ 116,689,294	$ (985,655)	$ 115,703,639

See accompanying notes of independent auditors.