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

ANTELOPE VALLEY HEALTHCARE DISTRICT

June 30, 2020 and 2019

MOSSADAMS

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This section of Antelope Valley Healthcare District's (the "District's") financial statements presents management's discussion and analysis of the financial activities of the District during the years ended June 30, 2020, 2019, and 2018. We encourage the reader to consider the information presented here in conjunction with the financial statements as a whole.

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. The District's consolidated statements include the operations of the Antelope Valley Hospital, a designated trauma center; the District's 70% share of the Antelope Valley Outpatient Imaging Center (AVOIC) and the Antelope Valley Hospital Foundation, a charitable giving organization. Unless otherwise indicated, amounts presented in management's discussion and analysis are in thousands. All references to years refer to the fiscal years ending June 30.

2020 Pandemic and the Coronavirus Aid, Relief and Economic Security (CARES) Act

On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. Soon afterward, many hospitals in the United States cancelled or reduced elective surgical cases and other diagnostic treatments, resulting in a significant loss of net patient revenue. In addition to reduced surgical and diagnostic volumes, the emergency room visits significantly declined during the pandemic. The pandemic has resulted in the District incurring additional costs to maintain patient volumes, provide personal protective equipment (PPE) including N-95 and surgical masks, gloves, goggles and gowns to keep its front-line staff safe as well as to provide care to patients specifically affected by the virus. The District also invested in new ventilators, expensive anti-viral pharmaceuticals and new laboratory equipment and reagents to specifically test for this virus.

The duration and intensity of disruption from the pandemic is uncertain, and therefore the long-term impact, if any, cannot be predicted. Management is closely monitoring the evolution of this pandemic, including how it may affect operations and the general population. Management has not yet determined the full financial impact of these events. As of the end of June 2020 the District had tested over 1,300 patients who presented to the hospital. Of those patient encounters, 247 patients tested positive and of those, 161 were admitted to the hospital.

To combat the financial effects of the virus, on March 27, 2020, Congress passed the $2.3 trillion CARES Act stimulus bill. Included in the bill was a provision for $100 billion of financial support for hospitals. In April 2020, the Centers for Medicare and Medicaid Services ("CMS") began distributing the $100 billion in the form of grants to hospitals. The District received $8.4 million in CARES Act grants. The District is required to submit reports documenting its lost revenue and expenses incurred to support the grant funds, among other terms and conditions.

2020 Pandemic and the Coronavirus Aid, Relief and Economic Security (CARES) Act (continued)

Separately, CMS initiated an Accelerated Payment Program to hospitals. The accelerated payments represent advance payments for services to be provided and were based on the District's historical Medicare volume. In April 2020, the District received $28.5 million in accelerated payments. A year from the receipt of these funds, CMS will begin recouping 25% of the payments from billing for services rendered for 11 months. At the end of the 11 months, the recoupment increases to 50% for another six months. Any accelerated payments remaining open after the subsequent six-month period is subject to repayment at an interest rate of 4%. Subsequent to the June 2020 fiscal year-end, the hospital has treated a significant number of Covid-19 patients and received $10.2 million in CARES Act funds.

Throughout this management discussion and analysis, the effects of the pandemic on the District's fiscal 2020 operations and financial results will be discussed.

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

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

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

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

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

The District's Net Position

The District's net position represents the difference between its assets and deferred outflows of resources less liabilities and deferred inflows of resources as reported in the statements of net position. The District's net position increased by $9,275 or 6.1% in 2020 over 2019.

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

	2020	2019	2018
ASSETS			
Cash and short-term investments	$ 113,956	$ 131,533	$ 115,395
Patient accounts receivable, net	52,245	60,774	54,640
Other current assets	14,086	10,985	12,330
Long-term investments	137,372	91,821	73,617
Capital assets (net)	200,779	194,339	183,001
Other noncurrent assets	20,780	20,583	26,318
Total assets	539,218	510,035	465,301
DEFERRED OUTFLOWS OF RESOURCES	26,633	9,956	15,829
Total assets and deferred outflows of resources	$ 565,851	$ 519,991	$ 481,130
LIABILITIES			
Current liabilities	$ 108,126	$ 86,619	$ 60,882
Self insurance liabilities	16,055	16,291	15,054
Pension liability	149,745	125,759	128,132
Long-term debt (net of current)	128,921	134,877	137,907
Total liabilities	402,847	363,546	341,975
DEFERRED INFLOWS OF RESOURCES	2,819	5,535	8,356
NET POSITION			
Net investment in capital assets	83,515	71,500	64,282
Restricted	782	832	1,962
Unrestricted	75,888	78,578	64,555
Total net position	160,185	150,910	130,799
Total liabilities, deferred inflows of resources, and net position	$ 565,851	$ 519,991	$ 481,130

The District's Net Position (continued)

The following is an explanation of the significant changes between years as shown in Table 1 (in thousands):

Changes from 2019 to 2020 –

Cash, short-term investments and long-term investments increased $27,974 or 12.5% mainly due to increased collections of prior years' accounts receivable and the receipts of the Medicare Accelerated Payment and the CARES Act funds. These increases were offset by lower supplemental funding in 2020.

Patient accounts receivable, net decreased $8,529 or 14.0% from 2019 to 2020, mainly due to lower volumes related to COVID-19 and collections of prior year's accounts receivables.

Other current assets increased $3,101 or 28.2% from 2019 to 2020 mainly due to a disproportionate share hospital (DSH) receivable and additional inventory due to COVID-19.

Capital assets, net increased $6,439 or 3.3% from 2019 to 2020. Increases of $7,536 in equipment and $2,164 in building improvements are offset by transfers of construction-in-progress of $14,064, offset by related depreciation and amortization expense of $17,326.

Changes from 2018 to 2019 –

Cash, short-term investments, and long-term investments increased $34,342 or 18.2% mainly due to the actual receipts of supplemental funding from prior years.

Patient accounts receivable, net increased $6,134 or 11.2% from 2018 to 2019, mainly due to the conversion to Cerner, a new patient accounting software. This conversion provided challenges for the billing department that are being slowly resolved.

Other current assets decreased $1,345 or 10.9% from 2018 to 2019.

Capital assets, net increased $11,338 or 6.2% from 2018 to 2019. Increases of $43,669 in equipment and $1,042 in land improvements and building improvements are offset by transfers of construction-in-progress of $17,508, offset by related depreciation and amortization expense of $19,800, less deletions of $3,935.

Operating Results and Changes in the District's Net Position

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

	2020	2019	2018
OPERATING REVENUE			
Net patient service revenue	$ 403,920	$ 387,903	$ 410,699
Supplemental funding	42,930	59,165	42,025
Other revenue	3,609	4,510	3,866
Total operating revenues	450,459	451,578	456,590
OPERATING EXPENSES			
Salaries and wages	210,165	197,120	190,002
Employee benefits	64,419	63,169	61,556
Purchased services and professional fees	73,221	70,519	64,151
Supplies	67,961	60,276	66,030
Other expenses	19,541	27,356	33,542
Depreciation and amortization	19,907	19,452	14,910
Total operating expenses	455,214	437,892	430,191
OPERATING INCOME (LOSS)	(4,755)	13,686	26,399
NONOPERATING REVENUES (EXPENSES)			
Grant revenue and contributions	3,732	4,175	3,888
CARES Act funding	8,421	-	-
Investment income	8,190	8,706	2,044
Interest expense	(6,313)	(6,455)	(6,782)
Total nonoperating expenses, net	14,030	6,426	(850)
Change in net position	$ 9,275	$ 20,112	$ 25,549

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

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

The first component of the overall change in the District's net position is its operating income that is generally the result of the difference between net patient service revenue and other operating revenues and the expenses incurred to perform those services. Operating income decreased by $18,440 or 134.7% in 2020 as compared to 2019 and decreased by $12,713 or 48.2% in 2019 as compared to 2018. The primary components of the changes in operating income are as follows:

Changes from 2019 to 2020 – *Net patient service revenue* for the District was approximately $403,930 and $387,903 for the years ended June 30, 2020 and 2019. There was an overall increase in net patient service revenue from 2019 to 2020 as a result of increased patient volumes during the first half of the year. The second half of the year was affected by COVID-19. There was a decrease in supplemental funding in 2020, as discussed in their respective sections below:

Patient Volumes

Inpatient Business Activity

	2020 Days	2019 Days	2018 Days
Acute Patient Days by Payor			
Medicare	17,084	16,959	18,855
Medicare Managed Care	12,794	11,841	11,795
Medi-Cal	10,206	10,357	13,162
Medi-Cal Managed Care	22,589	22,740	22,251
Commercial managed care	14,825	14,719	15,460
Other	1,076	1,320	1,489
Self pay	1,682	1,498	650
	80,256	79,434	83,662

Discharges decreased from 19,155 in 2019 to 19,030 in 2020, this caused the increase in length of stay to 4.22 from 4.15 days. The patient days increased by 822 in 2020 (1.0%), as indicated in the table above.

The overall case mix index for the District, which is a measure of patient acuity, increased to 1.37 from 1.30 in 2020 and 2019. The Medicare case mix index increased from 1.80 in 2019 to 1.94 in 2020.

Surgeries decreased by 199 cases (2.2%), from 8,980 in 2019 to 8,781 in 2020. Inpatient surgeries decreased by 117 cases (3.2%), from 3,668 in 2019 to 3,551 in 2020. Outpatient surgeries decreased by 76 cases (2.0%) and inpatient surgeries in the Women & Infants Pavilion decreased by 6 cases (0.4%).

Patient Volumes (continued)

Outpatient Business Activity

Outpatient gross revenue charges increased approximately $6,620 or 1.0% to $644,021 in 2020.

Changes from 2018 to 2019 – *Net patient service revenue* for the District approximated $387,903 and $410,699 for the years ended June 30, 2019 and 2018. There was an overall decrease in net patient service revenue from 2018 to 2019 as a result of decreased patient volumes.

Inpatient Business Activity

Although discharges decreased from 20,829 in 2018 to 19,155 in 2019, this was offset by the increase in length of stay to 4.15 from 4.02 days which resulted in patient days decreasing by 4,228 in 2019 (5.1%), as indicated in the table above.

The overall case mix index for the District, which is a measure of patient acuity, was consistent at 1.30 in 2019 and 2018. The Medicare case mix index changed from 1.81 in 2018 to 1.80 in 2019.

Surgeries decreased by 515 cases (5.4%), from 9,495 in 2018 to 8,980 in 2019. Inpatient surgeries decreased by 923 cases (20.2%), from 4,591 in 2018 to 3,668 in 2019. Outpatient surgeries increased by 571 cases (17.7%) and inpatient surgeries in the Women & Infants Pavilion decreased by 163 cases (9.8%).

Outpatient Business Activity

Outpatient gross revenue charges increased approximately $17,414 or 2.8% to $637,401 in 2019. As a result of the District's implementation of the Cerner Electronic Medical Record system in September 2018, certain Outpatient statistics are measured differently in comparison to prior years and as such, year over year comparisons would not be meaningful. Going forward the statistics measure will provide year over year comparisons.

Supplemental Funding

	2020	2019	2018
California Hospital Quality Assurance Fee (HQAF) program	$ 16,356	$ 18,957	$ 13,395
Assembly Bill 113	(598)	4,928	14,743
Medi-Cal Managed Care Rate Range Program	-	-	318
Trauma center fund	6,224	6,509	4,719
Disproportionate Share Hospital programs	7,218	19,426	(8,006)
PRIME Program	9,636	9,068	15,136
Cost report settlements and other	4,094	277	1,720
Subtotal	42,930	59,165	42,025
IGT fees*:			
HQAF	2,801	3,979	1,781
Assembly Bill 113	(1,123)	2,708	6,009
Net supplemental funds	$ 41,252	$ 52,478	$ 34,235

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

Changes from 2019 to 2020
In 2019 a prior period adjustment was recorded for Senate Bill 1100.

Operating expenses increased 4.0% in 2020 as compared to 2019. This is due to increase in full time equivalent employees, new collective bargaining agreements, an increase in retirement costs offset by a decrease in health insurance and an increase in supply costs due to COVID-19.

Changes from 2018 to 2019
The majority of the increase in supplemental funding is due to the reduction in the reserve for anticipated requests to return Senate Bill 1100 funds received for 2017, 2018, and 2019 due to the District exceeding the statutory upper payment limit. After recent court rulings for 2015 and 2016, the District was able to release the reserves into income of $12,899 for payments received for those years. Additionally, an increase of $3,364 occurred in the HQAF Program as the District received funds in 2019 related to the second half of 2017.

Operating expenses increased 1.8% in 2019 as compared to 2018.

The District's Cash Flows

Net cash provided by operating activities decreased $9,447 or 17.0% from 2019 to 2020 mainly due to increased salaries and lower supplemental funding payments. These increases were offset by the Medicare Accelerated Payment. Cash increased from 2018 to 2019 mainly due to the actual receipts of supplemental funding from prior years.

Capital Asset and Debt Administration Capital Assets

At the end of 2020, 2019, and 2018, the District had $200,779, $194,339, and $183,001, respectively, in capital assets, net of accumulated depreciation, as detailed in Note 6 to the basic financial statements. The District expended $6,439, $11,338, and $17,473 in 2020, 2019, and 2018, respectively, related to new information technology and surgical equipment, and expenditures related to other infrastructure projects. Also during 2020, 2019, and 2018, the District expended $2,164, $750, $0, respectively, on buildings and leasehold improvements.

Debt

The District had $136,809, $142,405, and $144,442 in outstanding debt as of June 30, 2020, 2019, and 2018, respectively, comprised of revenue bonds, notes payable, and capital lease obligations as detailed in Note 8 to the basic financial statements. The District's formal debt issuances are subject to limitations imposed by state law. In September 2020, Moody's affirmed its Ba3 rating for the District's Series 2016A bond issue and the outlook remained negative.

Economic Factors on the Fiscal Year 2020 and Beyond

As mentioned earlier, with the pandemic affecting all hospitals in 2020, this has been a challenging year and will continue in fiscal 2021. In addition, the health care industry continues to move towards the use of limited provider networks, the use of additional payment and utilization rules by the insurance companies to lower reimbursements, and the continued shifting of costs to the consumers through the use of high deductible health plans. These trends require hospitals to improve efficiencies, improve revenue cycle processes and strive to improve quality outcomes to respond to those increased rules and regulations. The Medicare value-based purchasing program measures the following metrics: processes-of-care, patient experience, patient outcomes, and efficiencies.

The District participates in the Public Hospital Redesign and Incentives in Medi-Cal (PRIME) program. PRIME is a five-year program under the Medi-Cal 1115 waiver. PRIME's goal is to promote significant improvements in the way care is delivered through California's safety net hospitals. PRIME is funded by intergovernmental transfers (IGT) from the public hospitals for the purposes of accessing the federal Medicaid matching funds. The PRIME distributions to the hospitals are based on 80% of their Medi-Cal utilization and 20% from the results of their quality projects. The net amounts that the District received in 2020 and 2019 were $9,636 and $9,068. PRIME has been extended until December 2020. It is anticipated that a new program will be implemented by the State of California because these funds are critical to public hospitals.

As a trauma center, the District receives Los Angeles County Measure B trauma funds. During 2020 and 2019, the District received $6,224 and $6,500 in trauma funds. During 2020 and 2019, the District treated 1,371 and 1,296 trauma cases.

The Affordable Care Act (ACA) and California's decision to expand Medicaid in 2013 significantly increased the health care coverage for California's indigent and uninsured populations. This expansion reduced the amount of self-pay and uncompensated care for hospitals across the district and the state.

Economic Factors on the Fiscal Year 2020 and Beyond (continued)

The District plans to commit significant expenditures in the coming years to improve its operations. A 7,200 square foot 40 treatment bay expansion of the emergency department is scheduled for completion in the Spring of 2021. The emergency department saw over 120,000 patients last year in a space designed for 50,000 visits. In addition to upgrading medical and surgery equipment and implementing a new pharmacy distribution system, a new CT scanner, and a new bi-plane radiography unit is planned in late 2020. The bi-plane unit is a key component of the District's comprehensive stroke program. In 2020 the Antelope Valley Hospital Foundation contributed over $1,500 towards internal renovations of the hospital's patient tower floors. Significant improvements are planned for the information technology infrastructure. As will be discussed later, the District is in the planning stages to construct a replacement hospital.

Capitation Agreement

In April 2019, the District entered into its first capitation agreement with a Medi-Cal managed care health plan. The agreement currently covers about 11,000 Medi-Cal lives in the Antelope Valley area. The effect of the agreement increases the Medi-Cal utilization and thereby should increase the District's Medi-Cal disproportionate share payments from the state. It is not a full capitation agreement but essentially a sub-capitation hospital agreement covering only inpatient, outpatient and emergency services provided by Antelope Valley Hospital. The agreement excludes services that are solely the responsibility of the Plan or patients sent directly by the Plan to another facility. It also excludes services that are not provided by Antelope Valley Hospital, e.g. transplant, bariatric, hospice, skilled nursing, physician professional services, outpatient dialysis and procedures performed at outpatient surgery and rehabilitation centers.

Electronic Medical Records System

In 2018, the District completed the conversion of its electronic medical records (EMR) to the Cerner system. This conversion included the software license, equipment, and installation costs for over 50 clinical modules and the revenue cycle system. Since the initial implementation of the EMR, there have been improvements, modifications and upgrades. The system's capitalized cost is approximately $35,000. EMR was financed by cash reserves and a five-year $20,000 loan. The District has committed to support services from Cerner through March 2024 and will most likely renew the license and support thereafter.

New Hospital Project and Seismic Standards

According to California Assembly Bill AB2190, acute care inpatient hospitals must demolish, replace or retrofit hospital buildings that do not meet current seismic safety regulations and standards. The District had received an official extension of this law until 2025. During the COVID-19 pandemic, the California legislature extended the seismic rules until 2030. Because some of the District's buildings date back to the 1960s, 1970s and 1980s, the cost to retrofit those buildings along with the newer bed towers would be excessive and not cost-effective. In addition, the Antelope Valley Hospital would lose bed capacity during the retrofit process. As a result, the District plans to build a complete replacement facility on vacant property adjacent to the current hospital.

New Hospital Project and Seismic Standards (continued)

It was planned that the financing for this project would include the combination of publicly supported general obligation bonds and from the sale of revenue bonds. Last March, the District placed on the ballot a general obligation bond issue. Unfortunately, the ballot issue did not pass. As a result, the District is working with an investment firm to issue revenue bonds for the project.

Contacting the District's Financial Management

This financial report is designed to provide the District's patients, suppliers, community members, bond holders, 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. The District's financial information can also be accessed via the dacbond.com website and the Electronic Municipal Market Access (EMMA) service.

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Report of Independent Auditors

To the Board of Directors
Antelope Valley Healthcare District

Report on the Financial Statements

We have audited the accompanying financial statements of Antelope Valley Healthcare District (the "District") as of and during the fiscal years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Antelope Valley Healthcare District as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows thereof during the fiscal years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 1 through 11 and the Schedule of Changes in the Net Pension Liability and Related Ratios and Schedule of Contributions for the Defined Benefit Pension Plan, on pages 55 through 56, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise Antelope Valley Healthcare District's basic financial statements. The schedules on pages 57 through 62 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Moss Adams LLP

Los Angeles, California
November 3, 2020

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Antelope Valley Healthcare District
Statements of Net Position

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	June 30, 2020	June 30, 2019
CURRENT ASSETS		
Cash and cash equivalents	$ 53,907,760	$ 51,464,254
Short-term investments	57,924,665	77,935,325
Restricted cash and investments, current	2,123,729	2,133,654
Patient accounts receivable, net of estimated uncollectible accounts of $35,368,533 in 2020 and $49,725,752 in 2019	52,245,081	60,774,041
Other receivables, net of estimated uncollectible accounts of $92,000 in 2020 and $289,000 in 2019	3,207,172	1,267,719
Supplies inventory	7,249,042	6,286,408
Prepaid expenses and other current assets	3,629,435	3,431,140
Total current assets	180,286,884	203,292,541
NONCURRENT CASH AND INVESTMENTS		
Held by trustee	18,539,415	18,211,932
Less amounts required to meet current obligations	2,123,729	2,106,396
	16,415,686	16,105,536
Other long-term investments	137,372,139	91,820,595
Total noncurrent cash and investments	153,787,825	107,926,131
CAPITAL ASSETS, not being depreciated	9,869,241	9,869,241
CAPITAL ASSETS, net of accumulated depreciation	190,909,364	184,470,026
OTHER ASSETS	4,365,530	4,477,775
Total noncurrent assets	358,931,960	306,743,173
Total assets	539,218,844	510,035,714
DEFERRED OUTFLOWS OF RESOURCES		
Net difference between expected and actual earnings on pension plan investments (Note 10)	25,627,505	8,601,463
Deferred loss on debt defeasance (Note 8)	1,005,061	1,354,534
Total deferred outflows of resources	26,632,566	9,955,997
Total assets and deferred outflows of resources	$ 565,851,410	$ 519,991,711

(continued)

See accompanying notes.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	June 30, 2020	June 30, 2019
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 20,056,961	$ 30,554,071
Medicare advance payments	28,568,763	-
Accrued payroll and related expenses	18,659,900	16,030,151
Current maturities of long-term debt	7,887,277	7,527,653
Accrued self-insurance liabilities, current portion	6,223,200	7,587,533
Accrued interest payable	2,123,729	2,106,396
Estimated third-party payor settlements	24,606,175	22,812,805
Total current liabilities	108,126,005	86,618,609
LONG-TERM DEBT, net of current portion	128,921,234	134,877,818
ACCRUED SELF-INSURANCE LIABILITIES, net of current portion	16,055,257	16,291,112
PENSION LIABILITY	149,744,477	125,758,943
Total liabilities	402,846,973	363,546,482
DEFERRED INFLOWS OF RESOURCES		
Differences between actual and expected pension experience (Note 10)	2,819,239	5,534,613
NET POSITION		
Net investment in capital assets	83,514,570	71,500,262
Restricted, expendable for:		
Workers' compensation collateral	-	27,258
Specific operating activities	113,739	98,692
Restricted, non-expendable for minority interests	668,527	706,368
Unrestricted	75,888,362	78,578,036
Total net position	160,185,198	150,910,616
Total liabilities, deferred inflows of resources, and net position	$ 565,851,410	$ 519,991,711

Antelope Valley Healthcare District
Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended June 30,	
	2020	2019
OPERATING REVENUES		
Net patient service revenue, net of provision for uncollectible accounts of $20,129,175 in 2020 and $38,982,926 in 2019	$ 403,920,226	$ 387,902,795
Supplemental funding	42,930,171	59,165,119
Other revenue	3,608,957	4,509,659
Total operating revenues	450,459,354	451,577,573
OPERATING EXPENSES		
Salaries and wages	210,164,896	197,119,505
Employee benefits	64,419,387	63,169,428
Professional and medical fees	42,445,601	42,793,872
Purchased services	30,775,421	27,724,812
Supplies	67,960,628	60,276,252
Other expenses	19,540,834	27,356,058
Depreciation and amortization	19,906,948	19,451,531
Total operating expenses	455,213,715	437,891,458
OPERATING (LOSS) INCOME	(4,754,361)	13,686,115
NONOPERATING REVENUES (EXPENSES)		
Grant revenue and contributions	3,731,894	4,175,347
CARES Act Provider Relief Funds	8,421,439	-
Investment income	8,189,061	8,780,712
Dividend	-	(75,000)
Interest expense	(6,313,451)	(6,455,424)
Total nonoperating revenues, net	14,028,943	6,425,635
Change in net position	9,274,582	20,111,750
NET POSITION, beginning of year	150,910,616	130,798,866
NET POSITION, end of year	$ 160,185,198	$ 150,910,616

See accompanying notes.

	Years Ended June 30, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	$ 413,032,046	$ 372,904,363
Receipts from supplemental funding	44,140,681	78,096,176
Payments to suppliers and contractors	(146,237,607)	(165,971,029)
Payments to employees	(266,365,463)	(245,669,919)
Other receipts and payments, net	1,577,818	16,234,583
Net cash provided by operating activities	46,147,475	55,594,174
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from grants and contributions	3,823,580	4,069,506
Receipts from CARES Act Provider Relief Funds	8,421,439	-
Net cash provided by noncapital financing activities	12,245,019	4,069,506
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(24,117,357)	(26,334,668)
Principal repayments on long-term debt	(7,700,416)	(6,801,309)
Interest payments on long-term debt	(6,479,167)	(6,703,337)
Net cash used in capital and related financing activities	(38,296,940)	(39,839,314)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(45,861,694)	(11,473,896)
Proceeds from sale of investments	20,020,585	5,849,165
Interest and dividends received on investments	8,189,061	8,780,712
Net cash (used in)/provided by investing activities	(17,652,048)	3,155,981
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,443,506	22,980,347
CASH AND CASH EQUIVALENTS, beginning of year	51,464,254	28,483,907
CASH AND CASH EQUIVALENTS, end of year	$ 53,907,760	$ 51,464,254

(continued)

Antelope Valley Healthcare District
Statements of Cash Flows (continued)

	Years Ended June 30, 2020	2019
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss)/income	$ (4,754,361)	$ 13,686,115
Adjustments to reconcile operating (loss)/income to net cash provided by operating activities		
Provision for bad debts	20,139,344	38,982,926
Depreciation and amortization	19,906,948	19,451,531
Loss on disposal of assets	57,576	574,481
Changes in assets and liabilities		
Patient accounts receivable, net	(11,610,384)	(45,117,272)
Other receivables, net	(2,031,139)	2,656,978
Supplies inventory and prepaid expenses and other current assets	(1,160,929)	(1,281,158)
Estimated third-party payor settlements	582,860	19,134,917
Supplemental funding	1,210,510	-
Other assets	112,245	(1,968)
Deferred outflows and inflows of resources	(19,391,943)	3,051,871
Accounts payable and accrued liabilities	(10,497,110)	3,997,899
Medicare advance payments	28,568,763	-
Accrued payroll and related expenses	2,629,749	518,013
Accrued self-insurance liabilities	(1,600,188)	2,313,480
Pension liability	23,985,534	(2,373,639)
Net cash provided by operating activities	$ 46,147,475	$ 55,594,174
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Amortization of bond premium	$ 183,049	$ 183,049
Capital assets acquired through capital leases	$ 2,286,505	$ 4,948,152

See accompanying notes.

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.

Changes to board governance – In November 2017, the voters of the Antelope Valley approved Measure H. This approved the creation of a separate 501(c)(3) nonprofit entity governed by a nine-member board comprised of the five elected District board members, three community members, and the Chief Executive Officer. The separate nonprofit entity would be known as the Antelope Valley Hospital, Inc. and would operate the hospital through an asset transfer agreement. The new entity would maintain financial reporting responsibility to the District. The nonprofit company was recorded with the state and federal governments. The appropriate federal and state tax reports were filed and appropriate fees paid. Although the authority to exercise this agreement was in place, no decision was made by the District to implement the new operating structure.

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

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

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

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

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

Condensed component unit information for each of the District's blended component units during the fiscal year ended June 30, 2020, is as follows:

Condensed Statements of Net Position
As of June 30, 2020

	AVOIC	AVHF
ASSETS		
Patient accounts receivable, net	$ 2,386,706	$ -
Other current assets	544,176	4,099,244
Capital assets, net	2,187,521	-
Total assets	$ 5,118,403	$ 4,099,244
LIABILITIES		
Due to the District	$ 334,399	$ 291,763
Other current liabilities	1,311,868	522,500
Long-term liabilities	1,153,123	-
Total liabilities	2,799,390	814,263
NET POSITION		
Net investment in capital assets	519,153	-
Restricted, expendable	-	-
Restricted, nonexpendable	1,643,852	-
Unrestricted	156,008	3,284,981
Total net position	2,319,013	3,284,981
Total liabilities and net position	$ 5,118,403	$ 4,099,244

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

Condensed Statements of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2020

	AVOIC	AVHF
OPERATING REVENUE		
Net patient service revenue	$ 15,418,839	$ -
OPERATING EXPENSES		
Salaries, wages, and employee benefits	5,000,475	117,801
Purchased services and professional fees	6,338,726	3,555
Supplies	1,100,250	1,566
Other operating expenses	2,336,918	198,540
Depreciation and amortization	653,081	-
Total operating expenses	15,429,450	321,462
OPERATING LOSS	(10,611)	(321,462)
NONOPERATING REVENUES (EXPENSES)		
Grant revenue and contributions	-	537,382
Transfer of funds to Hospital	-	(1,533,899)
Interest (expense) income	(115,526)	9,771
Total nonoperating revenues (expenses), net	(115,526)	(986,746)
Change in net position	(126,137)	(1,308,208)
BEGINNING, net position	2,445,150	4,593,189
ENDING, net position	$ 2,319,013	$ 3,284,981

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

Condensed Statements of Cash Flows
For the Year Ended June 30, 2020

	AVOIC	AVHF
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	$ 15,606,533	$ -
Payments to suppliers and contractors	(9,763,953)	388,189
Payments to employees	(5,169,218)	(117,801)
Other receipts and payments, net	-	(986,745)
Net cash provided by (used in) operating activities	673,362	(716,357)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal repayments on long-term debt	(796,195)	-
Interest payments on long-term debt	(115,526)	-
Net cash used in capital and related financing activities	(911,721)	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(238,359)	(716,357)
CASH AND CASH EQUIVALENTS, beginning of year	676,686	4,815,848
CASH AND CASH EQUIVALENTS, end of year	$ 438,327	$ 4,099,491

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

Condensed component unit information for each of the District's blended component units during the fiscal year ended June 30, 2019, is as follows:

Condensed Statements of Net Position
As of June 30, 2019

	AVOIC	AVHF
ASSETS		
Patient accounts receivable, net	$ 2,574,400	$ -
Other current assets	802,369	4,815,848
Capital assets, net	2,853,228	-
Total assets	$ 6,229,997	$ 4,815,848
LIABILITIES		
Due to the District	$ 99,325	$ 222,659
Other current liabilities	2,056,707	-
Long-term liabilities	1,628,815	-
Total liabilities	3,784,847	222,659
NET POSITION		
Net investment in capital assets	388,665	-
Restricted, expendable	-	-
Restricted, nonexpendable	1,590,730	-
Unrestricted	465,755	4,593,189
Total net position	2,445,150	4,593,189
Total liabilities and net position	$ 6,229,997	$ 4,815,848

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

Condensed Statements of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2019

	AVOIC	AVHF
OPERATING REVENUE		
Net patient service revenue	$ 16,932,462	$ -
Other	31,389	-
Total operating revenues	16,963,851	-
OPERATING EXPENSES		
Salaries, wages, and employee benefits	5,441,078	124,816
Purchased services and professional fees	7,451,945	5,282
Supplies	1,047,591	1,789
Other operating expenses	2,464,320	210,490
Depreciation and amortization	217,918	-
Total operating expenses	16,622,852	342,377
OPERATING INCOME (LOSS)	340,999	(342,377)
NONOPERATING REVENUES/(EXPENSES)		
Grant revenue and contributions	-	603,259
Dividend	(250,000)	-
Interest expense	(81,787)	8,915
Total nonoperating revenues/ (expenses), net	(331,787)	612,174
Change in net position	9,212	269,797
BEGINNING NET POSITION	2,435,938	4,323,392
ENDING NET POSITION	$ 2,445,150	$ 4,593,189

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

Condensed Statements of Cash Flows
For the Year Ended June 30, 2019

	AVOIC	AVHF
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	$ 17,363,125	$ -
Payments to suppliers and contractors	(10,958,860)	(50,429)
Payments to employees	(5,391,597)	(124,816)
Other receipts and payments, net	26,404	612,423
Net cash provided by (used in) operating activities	1,039,072	437,178
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	96,198	-
Principal repayments on long-term debt	(372,302)	-
Interest payments on long-term debt	(81,787)	-
Net cash used in capital and related financing activities	(357,891)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividend paid	(250,000)	-
Net cash used in investing activities	(250,000)	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	431,181	437,178
CASH AND CASH EQUIVALENTS, beginning of year	245,505	4,378,670
CASH AND CASH EQUIVALENTS, end of year	$ 676,686	$ 4,815,848

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

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

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

Antelope Valley Surgical Institute, LLC – On May 9, 2017, the District entered into a joint venture arrangement by purchasing a 49% equity interest in Antelope Valley Surgical Institute, LLC (AVSI), which operates an ambulatory surgical center located in Lancaster, California. The District is a voting member but does not have control over the joint venture. The District utilizes the equity method of accounting. Under this method, the District records a share of their net profit or loss within their operating income or loss and increases or reduces the District's investment in the joint venture. The District does not consolidate the total joint venture's assets or liabilities or the revenues and expenses in the financial statements. The District's ongoing financial interest was approximately $4,256,000 and $4,368,000 as of June 30, 2020 and 2019, respectively, and is included within other assets in the Statements of Net Position. Separate financial statements of the joint venture are not available to the public.

Note 2 – Summary of Significant Accounting Policies

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

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

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.

Note 2 – Summary of Significant Accounting Policies (continued)

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. Cash equivalents consisted primarily of money market accounts with brokers as of June 30, 2020 and 2019.

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

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

Supplies inventory – Supplies inventory is 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 $3,000 for all asset classifications and for items with a useful life of more than three years.

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

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

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

Note 2 – Summary of Significant Accounting Policies (continued)

The District elected to early adopt GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* and will not capitalize any interest for the current fiscal year. Total interest capitalized and incurred during fiscal years ended June 30, 2020 and 2019, was as follows:

	2020	2019
Interest capitalized	$ -	$ 81,364
Interest charged to expense	6,313,451	6,455,424
Total interest incurred	$ 6,313,451	$ 6,536,788

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is dependent upon the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the Statements of Revenues, Expenses, and Changes in Net Position. The District recognized no impairment charges during the fiscal years ended June 30, 2020 and 2019.

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

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

Note 2 – Summary of Significant Accounting Policies (continued)

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and workers' compensation claims. During fiscal year 2020, certain claims were not covered commercially or by any other means of insurance (see Note 12).

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

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

During the fiscal year ended June 30, 2020, the District increased its estimated amounts due from third-party payors and increased net patient service revenue by approximately $24,442,000 due to changes in accounting estimates related to prior periods. During the fiscal year ended June 30, 2019, the District increased its estimated amounts due from third-party payors and increased net patient service revenue by approximately $11,800,000 due to changes in accounting estimates related to prior periods.

Normal estimation differences between subsequent cash collections on patient accounts receivable and net patient accounts receivable estimated in the prior year are reported as adjustments to net patient service revenue in the current period. During the fiscal year ended June 30, 2020, the District increased its net patient service revenue by approximately $9,000,000 due to changes in accounting estimates related to prior periods. During the fiscal year ended June 30, 2019, the District increased its net patient service revenue by approximately $3,800,000 due to changes in accounting estimates related to prior periods.

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

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

Note 2 – Summary of Significant Accounting Policies (continued)

Grant and contribution income – During 2020 and 2019, the District received approximately $2,970,000 and $3,230,000, respectively, in grant revenues from the federal government. These funds were recognized as non-operating revenue when the funds were expended for the purpose specified by the grantee. The grant expenditures are recorded as operating expenses. In addition, during 2020 and 2019, the District received approximately $1,273,000 and $779,000, 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.

COVID-19 Pandemic – In March 2020, the World Health Organization declared the novel coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. The related adverse public health developments, including orders to shelter-in-place, travel restrictions, and mandated business closures, have adversely affected workforces, organizations, their patients and customers, economies, and financial markets globally, leading to increased market volatility and disruptions in normal business operations, including the District's operations.

On March 27, 2020, the United States Congress passed the Coronavirus Aid, Relief, and Economic Securities ("CARES") Act. The CARES Act included provisions for health care under the Provider Relief Fund. During April, May, and June 2020, the District received funds under the Provider Relief Fund, administered by the U.S. Department of Health & Human Services (HHS) of $8,421,000. The District was required to and did timely sign attestations agreeing to the terms and conditions of payment. Those terms and conditions include measures to prevent fraud and misuse. Documentation is required to ensure that these funds are to be used for healthcare-related expenses or lost revenue attributable to COVID-19, limitations of out of pocket payments from certain patients, and the acceptance of several other reporting and compliance requirements. It is noted that anti-fraud monitoring and auditing will be performed by HHS and the Office of the Inspector General. The District's management is currently determining its ability to comply with these terms and conditions. For the year ended June 30, 2020, the District has recognized approximately $8,421,000 of the Provider Relief Fund on its statement of operations and changes in net assets.

Separately, Centers for Medicare and Medicaid Services (CMS) initiated an Accelerated Payment Program to hospitals. The accelerated payments represent advance payments for services to be provided and were based on the District's historical Medicare volume. In April 2020, the District received approximately $28,569,000 in accelerated payments. A year from the receipt of these funds, CMS will begin recouping 25% of the payments from billing for services rendered for 11 months. At the end of the 11 months, the recoupment increases to 50% for another six months. Any accelerated payments remaining open after the subsequent six-month period is subject to repayment at an interest rate of 4%.

The District's management has been closely monitoring the impact of COVID-19 on the District's operations, including the impact on its patients and employees. The duration and intensity of the pandemic is uncertain but may influence patient decisions, donor decisions, and may also negatively impact collections of the District's receivables.

Note 2 – Summary of Significant Accounting Policies (continued)

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

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

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Issued in January 2017, GASB Statement No. 84, *Fiduciary Activities* establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Implementation of this statement is effective fiscal year 2021.

Issued in June 2017, GASB Statement No. 87, *Leases* is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Implementation of this statement is effective fiscal year 2022.

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

Note 2 – Summary of Significant Accounting Policies (continued)

Implementation of this statement did not have a significant impact on the financial statements of the District.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This statement is effective for the District for the year ending June 30, 2021.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objectives of this Statement are to improve accounting and financial reporting for public-private and public-public partnership arrangements and availability payment arrangements. This statement is effective for the District for the year ending June 30, 2023.

Note 3 – Net Patient Service Revenue

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

Medicare – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, acuity, and other factors. The District is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor. The Medicare administrative contractor has audited the District's cost reports through June 30, 2017.

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

Approximately 69% and 64% of net patient service revenue is from participation in the Medicare and state-sponsored Medi-Cal programs for the fiscal years ended June 30, 2020 and 2019, respectively. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 4 – Deposits, Investments, and Investment Income

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

	2020	2019
Cash on hand	$ 3,740	$ 3,740
Deposits	55,438,711	68,510,036
Investments	212,301,528	170,945,588
Total cash and investments	$ 267,743,979	$ 239,459,364

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

	2020	2019
Cash and cash equivalents	$ 53,907,760	$ 51,464,254
Short-term investments	57,924,665	77,935,325
Restricted cash and investments, current	2,123,729	2,133,654
Noncurrent cash and investments	153,787,825	107,926,131
Total cash and investments	$ 267,743,979	$ 239,459,364

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.

As of June 30, 2020 and 2019, approximately $15,839,000 and $19,928,000, respectively, of the District's bank balances were insured for the first $250,000 or covered by collateral held in the pledging bank's trust department in the name of the District. These amounts exclude deposits held by the District's blended component units with carrying values of approximately $4,538,000 and $5,492,000 as of June 30, 2020 and 2019, respectively. As nongovernmental entities, the blended component units are not subject to the collateralization requirements. The blended component units' cash accounts are uncollateralized and exceeded federally insured limits by approximately $3,307,000 and $4,262,000 as of June 30, 2020 and 2019, respectively.

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

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

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

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

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

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

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

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

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

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

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 statements of net position at amounts based upon the District's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis and therefore is excluded from the fair value hierarchy.

The following table discloses the fair value hierarchy of the District's assets by level as of June 30, 2020:

		Fair Value Measurements		
	June 30, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. instrumentalities	$ 47,001,918	$ -	$ 47,001,918	$ -
Corporate bonds	61,777,866	-	61,777,866	-
U.S. Treasury	33,054,574	-	33,054,574	-
Held by trustee				
Corporate bonds	16,018,886	-	16,018,886	-
U.S. Treasury	2,109,288	-	2,109,288	-
	159,962,532	$ -	$ 159,962,532	$ -
Investments not subject to the fair value hierarchy				
State investment pool – LAIF	52,338,996			
Total investments	$ 212,301,528			

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

The following table discloses the fair value hierarchy of the District's assets by level as of June 30, 2019:

		Fair Value Measurements		
	June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. instrumentalities	$ 38,832,749	$ -	$ 38,832,749	$ -
Corporate bonds	50,444,311	-	50,444,311	-
U.S. Treasury	28,363,961	-	28,363,961	-
Held by trustee				
Corporate bonds	2,015,174	-	2,015,174	-
	119,656,195	$ -	$ 119,656,195	$ -
Investments not subject to the fair value hierarchy				
State investment pool – LAIF	51,289,393			
Total investments	$ 170,945,588			

The District had the following investments and maturities as of June 30, 2020:

		Investment Maturities (In Years)		
Investment Type	Fair Value	Less Than 1	1-5	More Than 5
External investment pool – LAIF	$ 52,338,996	$ 52,338,996	$ -	$ -
U.S. instrumentalities	47,001,918	13,021,620	10,759,943	23,220,355
Corporate bonds	61,777,866	18,310,170	35,383,295	8,084,401
U.S. Treasury	33,054,574	3,411,364	29,643,210	-
Held by trustee				
Corporate bonds	16,018,886	16,018,886	-	-
U.S. Treasury	2,109,288	2,109,288	-	-
	$ 212,301,528	$ 105,210,324	$ 75,786,448	$ 31,304,756

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

The District had the following investments and maturities as of June 30, 2019:

Investment Type	Fair Value	Investment Maturities (In Years) Less Than 1	1-5	More Than 5
External investment pool – LAIF	$ 51,289,393	$ 51,289,393	$ -	$ -
U.S. instrumentalities	38,832,749	12,201,814	17,763,570	8,867,365
Corporate bonds	50,444,311	8,003,726	36,370,838	6,069,747
U.S. Treasury	28,363,961	6,440,392	21,923,569	-
Held by trustee				
Corporate bonds	2,015,174	2,015,174	-	-
	$ 170,945,588	$ 79,950,499	$ 76,057,977	$ 14,937,112

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

Credit risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy generally limits its investments to a credit rating of A or the equivalent by a nationally recognized statistical rating organization. The District's investments not directly guaranteed by the U.S. government were rated as follows as of June 30, 2020 and 2019:

Investment Type	Moody's	S&P
External Investment Pool – LAIF	Not Rated	Not Rated
Corporate Bonds	Baa3 - Aa2	BBB - to AA
U.S. Instrumentalities	Aaa	AA+
U.S. Treasury	Not Rated	Not Rated

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the District's investments as disclosed in the table above as of June 30, 2020 and 2019, 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.

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

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

	2020		2019	
Investment Type	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
Federal National Mortgage Association	$ 31,924,046	16%	$ 26,830,974	16%
Federal Home Loan Bank	12,012,615	6%	4,841,166	3%

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

	2020	2019
Interest, dividends, and realized gains on sales of investments	$ 8,276,300	$ 8,603,800
Net (decrease)/increase in fair value of investments	(87,239)	176,912
	$ 8,189,061	$ 8,780,712

Restricted cash and investments – Current restricted cash and investments are amounts restricted for payment of interest related to outstanding debt. Held by trustee are cash proceeds from the equipment loan restricted for a capital project, as described in Note 9.

Note 5 – Patient Accounts Receivable

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

	2020	2019
Medicare	35.06 %	29.28 %
Medi-Cal	31.69	41.48
Other third-party and commercial payors	32.77	28.43
Self-pay	0.48	0.81
Total	100.00 %	100.00 %

Note 6 – Capital Assets

Capital assets activity during the fiscal year ended June 30, 2020, was as follows:

	Beginning Balance June 30, 2019	Additions	Deletions	Transfers	Ending Balance June 30, 2020
Land	$ 9,869,241	$ -	$ -	$ -	$ 9,869,241
Land improvements	24,217,282	-	-	-	24,217,282
Buildings and leasehold improvements	178,098,423	-	-	2,164,597	180,263,020
Equipment	257,009,206	7,398,201	(2,638,225)	2,776,529	264,545,711
Construction in progress	11,285,349	19,005,661	-	(4,941,126)	25,349,884
	480,479,501	26,403,862	(2,638,225)	-	504,245,138
Less accumulated depreciation					
Land improvements	13,693,323	801,791	-	-	14,495,114
Buildings and leasehold improvements	85,985,138	4,450,041	-	-	90,435,179
Equipment	186,461,773	14,655,116	(2,580,649)	-	198,536,240
	286,140,234	19,906,948	(2,580,649)	-	303,466,533
	$ 194,339,267	$ 6,496,914	$ (57,576)	$ -	$ 200,778,605

Construction commitments for various construction projects approximate $410,000 as of June 30, 2020.

Capital assets activity during the fiscal year ended June 30, 2019, was as follows:

	Beginning Balance June 30, 2018	Additions	Deletions	Transfers	Ending Balance June 30, 2019
Land	$ 9,869,241	$ -	$ -	$ -	$ 9,869,241
Land improvements	23,925,467	-	-	291,815	$ 24,217,282
Buildings and leasehold improvements	177,348,125	68,246	-	682,052	$ 178,098,423
Equipment	213,340,030	11,733,020	(3,970,266)	35,906,422	$ 257,009,206
Construction in progress	28,793,538	19,562,918	(190,818)	(36,880,289)	$ 11,285,349
	453,276,401	31,364,184	(4,161,084)	-	480,479,501
Less accumulated depreciation:					
Land improvements	12,913,586	779,737	-	-	13,693,323
Buildings and leasehold improvements	81,636,655	4,348,483	-	-	85,985,138
Equipment	175,725,065	14,672,210	(3,935,502)	-	186,461,773
	270,275,306	19,800,430	(3,935,502)	-	286,140,234
	$ 183,001,095	$ 11,563,754	$ (225,582)	$ -	$ 194,339,267

Note 7 – Self-Insurance Liabilities

Workers' compensation claims – The District is self-insured for the first $1,000,000 per occurrence of workers' compensation risks. The District purchases commercial insurance coverage above the self-insurance limits. Losses from asserted and unasserted claims identified under the District's incident reporting system are actuarially determined based on the District's past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. It is reasonably possible that the District's estimate of losses will change by a material amount in the near term. Unpaid claim liabilities were discounted using a discount rate of 1.22% in 2020 and 1.56% in 2019 and 2018 to account for the time value of money to determine the current estimated liabilities as reflected below. Activity in the District's accrued workers' compensation claims liability during 2020, 2019, and 2018, is summarized as follows:

	2020	2019	2018
Balance, beginning of year	$ 12,276,000	$ 12,666,000	$ 13,008,000
Current year claims incurred and changes in estimates for claims incurred in the prior year	2,523,032	4,151,913	3,170,813
Claims and expenses paid	(2,786,095)	(4,541,913)	(3,512,813)
Balance, end of year	$ 12,012,937	$ 12,276,000	$ 12,666,000

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

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the fiscal year by estimating the probable ultimate costs of the incidents. Annual estimated provisions are accrued based on the District's past experience as well as other considerations, including the nature of the claim or incident and relevant trend factors. Losses from asserted and unasserted claims identified under the District's incident reporting system are actuarially determined based on the District's past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. It is reasonably possible that this estimate could change materially in the near term. Unpaid claim liabilities were discounted using a discount rate of 1.22% in 2020 and 1.56% 2019 and 2018, to account for the time value of money to determine the current estimated liabilities as reflected below.

Note 7 – Self-Insurance Liabilities (continued)

Activity in the District's accrued medical malpractice claims liability during 2020, 2019, and 2018 is summarized as follows:

	2020	2019	2018
Balance, beginning of year	$ 13,337,081	$ 11,629,000	$ 7,912,000
Current year claims incurred and changes in estimates for claims incurred in the prior years	(1,785,224)	7,766,372	5,405,475
Claims and expenses paid	(3,081,857)	(6,058,291)	(1,688,475)
Balance, end of year	$ 8,470,000	$ 13,337,081	$ 11,629,000

Accrued medical claims – The District provides certain health and dental benefits to enrollees that serve under contract to the hospital. The cost of medical services provided to these enrollees is accrued in the period that the services are rendered. A provision has been made for claims in process of review and for claims incurred but not reported at year end. The amount of this liability is computed using historical claims payment experience, and a review of experience for similar plans. Amounts accrued totaled approximately $1,796,000 and $2,606,000 as of June 30, 2020 and 2019, respectively, and are included in accrued self-insurance liabilities on the statements of net position.

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

Note 8 – Long-Term Obligations

The following is a summary of long-term obligation transactions for the District during the fiscal year ended June 30, 2020:

	2020				
	Beginning Balance	Additions	Payments and Reductions	Ending Balance	Due Within 1 Year
Series 2016A District Revenue Bonds	$ 120,245,000	$ -	$ (2,185,000)	$ 118,060,000	$ 2,295,000
Equipment loan	12,356,938	-	(3,996,425)	8,360,513	4,117,751
Capital lease obligations	4,922,149	2,286,505	(1,518,996)	5,689,658	1,474,526
Unamortized bond premium	4,881,384	-	(183,044)	4,698,340	-
Total long-term debt	$ 142,405,471	$ 2,286,505	$ (7,883,465)	$ 136,808,511	$ 7,887,277

Note 8 – Long-Term Obligations (continued)

The following is a summary of long-term obligation transactions for the District during the fiscal year ended June 30, 2019:

	2019				
	Beginning Balance	Additions	Payments	Ending Balance	Due Within 1 Year
Series 2016A District Revenue Bonds	$ 122,325,000	$ -	$ (2,080,000)	$ 120,245,000	$ 2,185,000
Equipment loan	16,235,610	-	(3,878,672)	12,356,938	3,996,425
Line of credit	-	-	-	-	-
Capital lease obligations	816,634	4,948,152	(842,637)	4,922,149	1,346,228
Unamortized bond premium	5,064,433	-	(183,049)	4,881,384	-
Total long-term debt	$ 144,441,677	$ 4,948,152	$ (6,984,358)	$ 142,405,471	$ 7,527,653

Series 2016 District revenue bonds – On March 1, 2017, the District issued $126,120,000 of Series 2016A bonds at a premium of approximately $5,492,000. Proceeds of approximately $21,162,000 were used to finance costs associated with seismic improvements to certain District buildings, fund a Bond Reserve Account, and pay the costs of issuance. The Series 2016A bonds are due March 1, 2046, with annual principal payments ranging from $1,815,000 to $7,855,000 due beginning March 1, 2017, plus semiannual interest payments at interest rates from 5.00% to 5.25%. The Series 2016A bonds are secured by pledge of the District's gross revenues and trustee-held assets. The agreement is subject to certain financial covenants including minimum liquidity and net income to annual debt service ratio. The District recognized approximately $183,000 of amortization related to the bond premium during each of the fiscal years ended June 30, 2020 and 2019.

This advance refunding was undertaken to extend debt service payments over the next 30 years, which increased total debt service payments by approximately $105,235,000 and resulted in an economic loss (difference between present value of debt service payments of old debt and new debt) of approximately $11,137,000. The reacquisition price exceeded the net carrying amount of the old debt by $5,342,000. This accounting loss, net of amortization, is being reported as deferred outflows of resources on the statements of net position and is amortized over the shorter of the life of the old bonds or the new bonds. During the fiscal years ended June 30, 2020 and 2019, the District amortized approximately $436,000 related to the deferred outflows of resources, which is included in interest expense on the statements of revenues, expenses, and changes in net position.

Note 8 – Long-Term Obligations (continued)

The Series 2016A bond service requirements as of June 30, 2020, are as follows:

Years Ending June 30,	Total to be Paid or Amortized	Principal	Interest
2021	$ 8,252,438	$ 2,295,000	$ 5,957,438
2022	8,252,688	2,410,000	5,842,688
2023	8,252,188	2,530,000	5,722,188
2024	8,250,688	2,655,000	5,595,688
2025 – 2029	41,250,188	15,400,000	25,850,188
2030 – 2034	41,250,013	19,685,000	21,565,013
2035 – 2039	41,248,725	25,350,000	15,898,725
2040 – 2044	41,246,750	32,395,000	8,851,750
2045 – 2046	16,499,750	15,340,000	1,159,750
Premium	4,698,340	4,698,340	-
Total	$ 219,201,768	$ 122,758,340	$ 96,443,428

Equipment loan – In March 2017, the District entered into a purchase agreement of an electronic medical records system ("EMR System"). In June 2017, the District entered into a loan for $20,000,000 to partially finance the development and installation of the system which was placed into service in September 2018. Costs associated with the development are capitalized as outlays are made. The loan bears a nominal interest rate of 2.99% and is secured by the EMR System. The remaining costs will be funded through the District's operating activities (see Note 12). The agreement requires that the net income available for debt service to the maximum aggregate annual debt service not fall below 1:1. Monthly payments of principal and interest of $359,000 began in July 2017 and the loan matures in July 2022. As of June 30, 2020 and 2019, the outstanding loan balance was $8,360,513 and $12,356,938, respectively, and the escrow fund balance was $0 for 2020 and 2019.

The annual debt service requirements on the equipment loan as of June 30, 2020, are as follows:

Years Ending June 30,	Total to be Paid	Principal	Interest
2021	$ 4,311,893	$ 4,117,751	$ 194,142
2022	4,311,894	4,242,762	69,132
Total	$ 8,623,787	$ 8,360,513	$ 263,274

Note 8 – Long-Term Obligations (continued)

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 $11,358,660 and $9,084,783 as of June 30, 2020 and 2019, net of accumulated depreciation of approximately $5,414,963 and $3,986,037 as of June 30, 2020 and 2019, respectively.

The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates ranging from 0.22% to 5.13% together with the present value of the future minimum lease payments as of June 30, 2020

Years Ending June 30,	
2021	$ 1,638,192
2022	1,550,183
2023	1,438,247
2024	1,204,234
2025	248,040
Total minimum lease payments	6,078,896
Less amount representing interest	389,238
Present value of future minimum lease payments	$ 5,689,658

Note 9 – Restricted Net Position

As of June 30, 2020 and 2019, restricted expendable net position was available for the following purposes:

	2020	2019
Workers' compensation collateral	$ -	$ 27,258
Specific operating activities	113,739	98,692
Total restricted expendable net position	$ 113,739	$ 125,950

Note 10 – Pension Plans

403(b) defined contribution plan – The Antelope Valley Hospital Medical Center Section 403(b) Retirement Plan ("403(b) Plan") is a tax-deferred annuity plan that permits employees to accumulate retirement savings by making deferrals of their salary and permits the District to make non-elective contributions on behalf of eligible employees. Contributions are invested at the direction of the participants. The 403(b) Plan is administered by a board of trustees appointed by the District's governing body. The 403(b) Plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the 403(b) Plan Document and were established and can be amended by action of the District's governing body. There were no contributions made by the District during the fiscal years ended June 30, 2020 or 2019.

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

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

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

The Plans' provisions and benefits in effect as of June 30, 2020, are summarized as follows:

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

Note 10 – Pension Plans (continued)

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

	Valuation Date July 1, 2019 (Fiscal 2020)	Valuation Date July 1, 2018 (Fiscal 2019)
Active members	1,824	1,892
Terminated vested members not yet receiving benefits	1,409	1,375
Retirees and beneficiaries currently receiving benefits	914	861
Non-vested terminations with account balances	30	38
Total participants	4,177	4,166

Contributions – The authority to establish and amend obligations of plan members and the District is set forth in the Plan Document and is vested in the District's Board of Directors. Plan members are not required to contribute any of their annual covered salary. Prior to 2015, the District contributed such amounts, if any, as it determined to be appropriate each year. In fiscal year 2015, the Board adopted a pension funding policy whereby the District will contribute at minimum the actuarially determined contribution less required employee contributions. The annual required contributions for 2020 and 2019 were determined as part of actuarial valuation on July 1, 2019 and July 1, 2018, respectively, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a 6.75% investment rate of return in 2020 and 7.00% in 2019, and (b) projected salary increases of up to 3.00% per year in 2020 and 7% in 2019.

Net pension liability – The District's net pension liability is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability was determined as part of actuarial valuations as of July 1, 2019 and 2018 rolled forward to June 30, 2020 and 2019, respectively, using the projected unit credit actuarial cost method. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial assumptions – The total pension liability was determined as part of actuarial valuations as of July 1, 2019 and 2018 rolled forward to June 30, 2020 and 2019, respectively, using actuarial methods and assumptions in accordance with GASB Statement Nos. 67 and 68. The total pension liability was calculated using the entry age normal actuarial cost method and Pri-2012 Mortality Tables for Males & Females projected generationally using Scale-MP 2019. The actuarial assumptions as of June 30, 2020, included (a) 6.85% investment long-term expected rate of return, net of investment expenses, and (b) projected salary increases of 3.0%. Items (a) and (b) included an inflation component of 2.5%.

Note 10 – Pension Plans (continued)

Discount rate – The discount rate used to measure the total pension liability for the fiscal years ended June 30, 2020 and 2019, was 6.85% and 7.00%, respectively. The 2020 discount rate was based on the expected rate of return on pension plan investments of 6.85%. Based on the stated assumptions and the projection of cash flows, the Plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current pension plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine the Plan's discount rate assumes that contributions will continue at current levels for the current group of covered members with anticipated payroll increases of 3.00% annually.

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

The long-term expected rates of return for each major investment class in the Plan's portfolio as of June 30, 2020, are as follows:

Investment Class	Long-Term Expected Rate of Return
Domestic equity	
U.S. large cap core	8.6%
U.S. mid cap core	9.6%
U.S. small cap core	10.3%
Developed market	8.7%
Emerging market	11.5%
Alternative	
Real estate	7.9%
Global infrastructure	8.3%
Commodities/natural resources	5.5%
Fixed income	
Core fixed income	3.6%
Cash equivalents	2.3%
Developed market	3.2%
Emerging market	6.8%
Floating rate debt	4.6%
High yield fixed	6.4%

Note 10 – Pension Plans (continued)

Changes in the net pension liability – The changes in net pension liability follow:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
BALANCES, as of June 30, 2018	$ 330,290,431	$ 202,157,849	$ 128,132,582
Changes for the year			
Service cost	7,747,622	-	7,747,622
Interest on total pension liability	23,009,137	-	23,009,137
Effect of economic/demographic gains or losses	1,154,492	-	1,154,492
Effect of assumptions changes or inputs	-	-	-
Benefit payments	(10,924,570)	(10,924,570)	-
Employer contributions	-	19,713,038	(19,713,038)
Member contributions	-	1,395,539	(1,395,539)
Net investment income	-	13,571,598	(13,571,598)
Administrative expenses	1	(395,284)	395,285
BALANCES, as of June 30, 2019	351,277,113	225,518,170	125,758,943
Changes for the year			
Service cost	8,315,033	-	8,315,033
Interest on total pension liability	24,460,673	-	24,460,673
Effect of economic/demographic gains or losses	1,963,557	-	1,963,557
Effect of assumptions changes or inputs	20,724,964	-	20,724,964
Benefit payments	(11,992,898)	(11,992,898)	-
Employer contributions	-	20,367,897	(20,367,897)
Member contributions	-	1,612,787	(1,612,787)
Net investment income	-	9,529,079	(9,529,079)
Administrative expenses	-	(31,070)	31,070
BALANCES, as of June 30, 2020	$ 394,748,442	$ 245,003,965	$ 149,744,477

Note 10 – Pension Plans (continued)

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the District, calculated using a discount rate of 6.85%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1% point lower (5.85%) or 1% point higher (7.85%) than the current rate:

	1% Decrease (5.85%)	Current Discount Rate (6.85%)	1% Increase (7.85%)
Total pension liability	$ 451,807,821	$ 394,748,442	$ 347,785,304
Fiduciary net position	245,003,965	245,003,965	245,003,965
District's net pension liability	$ 206,803,856	$ 149,744,477	$ 102,781,339

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

Pension expenses and deferred outflows/inflows of resources related to pensions – The District recognized pension expense of approximately $25,628,000 and $19,955,000 during the fiscal years ended June 30, 2020 and 2019, respectively. The District reported deferred outflows of resources and deferred inflows of resources as of June 30, 2020, as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between actual and expected experience	$ (2,819,239)	$ 3,149,737
Changes in assumptions or inputs	-	17,745,683
Net differences between projected and actual earnings on plan investments	-	4,732,085
Total	$ (2,819,239)	$ 25,627,505

Note 10 – Pension Plans (continued)

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

Years Ending June 30,	Annual Recognition
2021	$ 6,510,701
2022	5,546,363
2023	6,803,574
2024	3,947,630
2025	-
Thereafter	-
	$ 22,808,268

Note 11 – Other Benefit Plans

457(b) deferred compensation – Effective February 1, 2014, the District has a deferred compensation plan provided to certain executives of the District. The District records a deferred compensation liability for amounts due these individuals which include the earnings from the invested assets. The liability is funded as required by the plan, based on the anniversary date of each participant. Payments relating to these plans representing the District's funded contribution were not significant during the fiscal years ended June 30, 2020 or 2019.

Note 12 – Commitments and Contingencies

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

Labor agreements – A substantial percentage of the District's employees are covered by two collective bargaining agreements. Negotiations were completed on the Services Employees International Union (SEIU) contract renewal which was effective July 1, 2019. The California Nurses Association union's current contract expires in December 2020. Negotiations have been initiated on this contract renewal.

Note 12 – Commitments and Contingencies (continued)

Operating leases – The District leases certain office space under operating lease agreements. Total lease expense, included in supplies and other expenses on the statements of revenues, expenses, and changes in net position, amounted to approximately $4,842,000 and $5,217,000 during the fiscal years ended June 30, 2020 and 2019, respectively. The District subleases certain office suites to other businesses in Lancaster, California. The lease term is for fifty years, expiring on August 31, 2062. The lease calls for monthly payments in the amount of approximately $4,000 adjusted for inflation every five years from the commencement date of the lease.

Minimum future lease payments and sublease rental income offsets on existing non-cancelable leases as of June 30, 2020, are as follows:

	Minimum Future Lease Payments	Sublease Rental Income	Net
2021	$ 2,101,231	$ (43,750)	$ 2,057,481
2022	2,022,287	(43,750)	1,978,537
2023	1,841,468	(43,750)	1,797,718
2024	1,596,388	(43,750)	1,552,638
2025	1,616,571	(43,750)	1,572,821
Thereafter	4,997,085	(1,622,390)	3,374,695
Total minimum lease payments	$ 14,175,030	$ (1,841,140)	$ 12,333,890

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 12 – Commitments and Contingencies (continued)

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

2021	$ 3,727,580
2022	3,727,580
2023	3,727,580
2024	2,795,685
Total minimum payments	$ 13,978,425

Note 13 – Construction and Seismic Standards

According to California Assembly Bill (AB) 2190, acute care inpatient hospitals must demolish, replace, or retrofit hospital buildings that do not meet current seismic safety regulations and standards. The District has received an extension of this law until 2025. Because some of the District's buildings date back to the 1960s, 1970s, and 1980s, the cost to retrofit those buildings along with the other bed towers would be excessive and not cost-effective. In addition, the Antelope Valley Hospital would lose bed capacity during the retrofit process. As a result, the District's current plan is to build a complete 320-bed replacement facility on vacant property owned by the District that is adjacent to the current hospital. It was planned that the financing for this project would include the combination of publicly supported general obligation bonds and from the sale of revenue bonds. Last March, the District placed on the ballot a general obligation bond issue. Unfortunately, the ballot issue did not pass. As a result, the District is working with an investment firm to issue revenue bonds for the project.

Note 14 – Revenue from Governmental Programs

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

Note 14 – Revenue from Governmental Programs (continued)

Additional legislation has continued to extend the Program. During 2020 and 2019, the District received supplemental payments through the Program. The Program provides funding for supplemental payments to California hospitals that serve Medi-Cal and uninsured patients.

Under this legislation, the District recognized approximately $16,356,000 and $18,957,000 in net patient service revenue during the fiscal years ended June 30, 2020 and 2019, respectively. The net impact of the Program resulted in an increase in net position of approximately $13,555,000 and $14,978,000 during the fiscal years ended June 30, 2020 and 2019, respectively.

IGT Program – During 2020 and 2019, 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 ($598,000) and $4,928,000 in net patient service revenue during the fiscal years ended June 30, 2020 and 2019, respectively. Fees received by the District from the IGT Program were approximately $1,123,000 during the fiscal year ended June 30, 2020, related to overpayment and are included as a reduction in other expenses. Fees paid by the District into the IGT Program were approximately $2,708,000 during the fiscal year ended 2019 and are included in other expenses. The net impact of the IGT Program resulted in an increase in net position of approximately $525,000 and $2,220,000 during the fiscal years ended June 30, 2020 and 2019, respectively.

Additionally, as of June 30, 2020 and 2019, the District has a reserve in the amount of $35,461,000 and $25,259,000, respectively, related to the anticipated requests to return SB1100 funds received for the fiscal years 2017, 2018, 2019, and 2020 due to exceeding the statutory upper payment limit. During the year ended June 30, 2019, the Company released the reserves related to fiscal years 2015 and 2016 due to their belief the government will not pursue these items further. These amounts are included in estimated third-party payor settlements in the accompanying statements of net position.

Note 15 – Subsequent Events

Subsequent to the District's June 30 fiscal year end, the following events have occurred.

Emergency Department Lease
In July 2020, the District entered into an 84-month lease with a firm to construct and install a modular emergency department building. The building will be a 7,200 square foot, 40 treatment bay expansion of the current emergency department. The expected completion date is the spring of 2021. The lease payments for the first 42 months are $115,000 and $165,000 for the final 42 months.

CARES Act Funding
In September 2020, the District received $10,200,000 from the CARES Act. The District received these funds because Antelope Valley Hospital had been designated as a COVID-19 High-Impact hospital having treated a significant number of COVID-19 patients. The District also applied to HHS for Phase 3 of CARES Act funding. Acceptance of this application is pending.

Required Supplementary Information

Antelope Valley Healthcare District
Schedule of Changes in the Net Pension Liability and Related Ratios
Last Ten Years*
For the Fiscal Year Ended June 30, 2020

	2020	2019	2018	2017	2016	2015
Total pension liability						
Service cost	$ 8,315,033	$ 7,747,623	$ 8,268,096	$ 7,016,415	$ 6,707,130	$ 6,480,319
Interest on total pension liability	24,460,673	23,009,137	22,180,542	20,593,745	19,660,531	18,338,307
Changes of assumptions	20,724,964	-	129,155	8,609,531	8,835,715	-
Difference between expected and actual experience	1,963,557	1,154,492	(8,105,314)	5,281,052	(5,190,447)	-
Benefit payments	(11,992,898)	(10,924,570)	(9,825,764)	(8,800,937)	(7,711,728)	(6,893,033)
Net change in total pension liability	43,471,329	20,986,682	12,646,715	32,699,806	22,301,201	17,925,593
Total pension liability Beginning of year	351,277,113	330,290,431	317,643,716	284,943,910	262,642,709	244,717,116
End of year (a)	$ 394,748,442	$ 351,277,113	$ 330,290,431	$ 317,643,716	$ 284,943,910	$ 262,642,709
Plan fiduciary net position						
Employer contributions	$ 20,367,897	$ 19,713,038	$ 18,559,927	$ 14,741,814	$ 18,711,728	$ 13,888,450
Member contributions	1,612,787	1,395,539	1,048,104	775,922	660,595	146,786
Net investment income	9,529,079	13,571,598	14,388,612	15,972,545	(1,737,867)	5,222,989
Administrative expenses	(31,070)	(395,284)	(27,346)	(25,943)	(47,692)	(74,122)
Benefit payments	(11,992,898)	(10,924,570)	(9,825,765)	(8,800,937)	(7,711,728)	(6,893,033)
Net change in plan fiduciary net position	19,485,795	23,360,321	24,143,532	22,663,401	9,875,036	12,291,070
Plan fiduciary net position Beginning of year	225,518,170	202,157,849	178,014,317	155,350,916	145,475,880	133,184,810
End of year (b)	$ 245,003,965	$ 225,518,170	$ 202,157,849	$ 178,014,317	$ 155,350,916	$ 145,475,880
District's net pension liability (a) - (b)	$ 149,744,477	$ 125,758,943	$ 128,132,582	$ 139,629,399	$ 129,592,994	$ 117,166,829
Plan fiduciary net position as a percentage of the total pension liability	62.07%	64.20%	61.21%	56.04%	54.52%	55.39%
Covered-employee payroll	$ 155,267,645	$ 150,222,000	$ 142,333,000	$ 150,657,227	$ 147,694,076	$ 145,363,784
District's net pension liability as a percentage of covered-employee payroll	96.44%	83.72%	90.02%	92.68%	87.74%	80.60%

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

Notes to Schedule:

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

Antelope Valley Healthcare District
Schedule of Contributions
Last Ten Years
For the Fiscal Year Ended June 30, 2020

Fiscal Year Ended	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Surplus)	Covered Payroll	Contribution as a % of Covered Payroll	Valuation Date	Investment Rate of Return Assumption
6/30/2020	$ 16,099,900	$ 20,367,897	$ (4,267,997)	$ 155,267,645	13.12%	7/1/2019	6.85%
6/30/2019	15,442,859	19,713,038	(4,270,179)	150,222,000	13.12%	7/1/2018	7.00%
6/30/2018	16,292,095	18,559,927	(2,267,832)	142,333,000	13.04%	7/1/2017	7.00%
6/30/2017	13,875,355	14,741,814	(866,459)	150,657,227	9.79%	7/1/2016	7.00%
6/30/2016	13,400,105	18,711,728	(5,311,623)	147,694,076	12.67%	7/1/2015	7.25%
6/30/2015	13,497,568	13,888,450	(390,882)	145,363,784	9.55%	7/1/2014	7.50%
6/30/2014	17,804,538	7,226,851	10,577,687	141,499,947	5.11%	7/1/2013	8.00%
6/30/2013	16,717,000	8,076,596	8,640,404	136,714,925	5.91%	7/1/2012	8.00%
6/30/2012	15,110,012	6,879,315	8,230,697	138,940,618	4.95%	7/1/2011	8.00%
6/30/2011	12,757,461	7,240,424	5,517,037	134,153,568	5.40%	7/1/2010	8.00%
6/30/2010	11,053,926	5,830,054	5,223,872	127,037,158	4.59%	7/1/2009	8.00%

Notes to Schedule:

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Effective July 1, 2014: Individual Entry Age Normal cost method through July 1, 2013: Projected Unit Credit cost method
Amortization Method	Effective July 1, 2014: Closed 25-year amortization, level percentage of pay through July 1, 2013: Open 10-year amortization, level dollar amount
Asset Valuation Method	Market value gains and losses smoothed over four years, with result within 20% of the market value
Healthy Mortality	Effective July 1, 2019: Modified version of PUB-2010 mortality tables for general employees. Effective July 1, 2015: Healthy Combined RP-2014 mortality projected to 2029 using scale BB for PEPRA participants Effective July 1, 2009: Healthy Combined RP-2000 mortality projected to 2015 (2030 for PEPRA participants) Through July 1, 2008: 1983 Group Annuity Mortality Tables
Inflation	Effective July 1, 2015: 2.50% per year Effective July 1, 2007: 2.75% per year Through July 1, 2006: 3.0% per year
Salary Increases	Effective July 1, 2015: 7.0% - 3.0% by duration Effective July 1, 2010: 7.5% - 3.5% by duration Through July 1, 2009: 5.0% per year with merit increases
Retirement age:	Normal retirement at 65 years old; Early retirement at 55 years old and 10 years of service
Investment rate of return:	Effective July 1, 2016: 7.0%, net of investment expense, including inflation Effective July 1, 2015: 7.25%, net of investment expense, including inflation Effective July 1, 2014: 7.5%, net of investment expense, including inflation

Other Supplementary Information

Antelope Valley Healthcare District
Schedule of Net Position
June 30, 2020

	AVHD	AVOIC	AVHF	Total	Eliminations	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
CURRENT ASSETS						
Cash and cash equivalents	$ 49,370,189	$ 438,327	$ 4,099,244	$ 53,907,760	$ -	$ 53,907,760
Short-term investments	57,924,665	-	-	57,924,665	-	57,924,665
Restricted cash and investments, current	2,123,729	-	-	2,123,729	-	2,123,729
Patient accounts receivable, net	49,858,375	2,386,706	-	52,245,081	-	52,245,081
Other receivables, net	3,803,734	29,846	-	3,833,580	(626,408)	3,207,172
Supplies inventory	7,184,638	64,404	-	7,249,042	-	7,249,042
Prepaid expenses and other current assets	3,617,836	11,599	-	3,629,435	-	3,629,435
Total current assets	173,883,166	2,930,882	4,099,244	180,913,292	(626,408)	180,286,884
NONCURRENT CASH AND INVESTMENTS						
Held by trustee	18,539,415	-	-	18,539,415	-	18,539,415
Less amounts required to meet current obligations	2,123,729	-	-	2,123,729	-	2,123,729
	16,415,686	-	-	16,415,686	-	16,415,686
Other long-term investments	137,372,139	-	-	137,372,139	-	137,372,139
Total noncurrent cash and investments	153,787,825	-	-	153,787,825	-	153,787,825
CAPITAL ASSETS, not being depreciated	9,869,241	-	-	9,869,241	-	9,869,241
CAPITAL ASSETS, net of accumulated depreciation	188,721,843	2,187,521	-	190,909,364	-	190,909,364
OTHER ASSETS	5,596,353	-	-	5,596,353	(1,230,823)	4,365,530
Total noncurrent assets	357,975,262	2,187,521	-	360,162,783	(1,230,823)	358,931,960
Total assets	531,858,428	5,118,403	4,099,244	541,076,075	(1,857,231)	539,218,844
DEFERRED OUTFLOWS OF RESOURCES						
Net difference between expected and actual earnings on pension plan investments	25,627,505	-	-	25,627,505	-	25,627,505
Deferred loss on debt defeasance	1,005,061	-	-	1,005,061	-	1,005,061
	26,632,566	-	-	26,632,566	-	26,632,566
Total assets and deferred outflows of resources	$ 558,490,994	$ 5,118,403	$ 4,099,244	$ 567,708,641	$ (1,857,231)	$ 565,851,410

(Continued)

Antelope Valley Healthcare District
Schedule of Net Position (continued)
June 30, 2020

	AVHD	AVOIC	AVHF	Total	Eliminations	Total
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION						
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	$ 18,979,155	$ 889,951	$ 814,263	$ 20,683,369	$ (626,408)	$ 20,056,961
Medicare advance payments	28,568,763	-	-	28,568,763	-	28,568,763
Accrued payroll and related expenses	18,418,829	241,071	-	18,659,900	-	18,659,900
Current maturities of long-term debt	7,372,032	515,245	-	7,887,277	-	7,887,277
Accrued self-insurance liabilities, current portion	6,223,200	-	-	6,223,200	-	6,223,200
Accrued interest payable	2,123,729	-	-	2,123,729	-	2,123,729
Estimated third-party payor settlements	24,606,175	-	-	24,606,175	-	24,606,175
Total current liabilities	106,291,883	1,646,267	814,263	108,752,413	(626,408)	108,126,005
LONG-TERM DEBT, net of current portion	127,768,111	1,153,123	-	128,921,234	-	128,921,234
ACCRUED SELF-INSURANCE LIABILITIES, net of current portion	16,055,257	-	-	16,055,257	-	16,055,257
PENSION LIABILITIES	149,744,477	-	-	149,744,477	-	149,744,477
Total liabilities	399,859,728	2,799,390	814,263	403,473,381	(626,408)	402,846,973
DEFERRED INFLOWS OF RESOURCES						
Differences between actual and expected pension experience	2,819,239	-	-	2,819,239	-	2,819,239
NET POSITION						
Members' contributed capital	-	1,643,852	-	1,643,852	(1,643,852)	-
Net investment in capital assets	82,995,417	519,153	-	83,514,570	-	83,514,570
Restricted, expendable for:						
Debt service	-	-	-	-		-
Workers' compensation collateral	-	-	-	-	-	-
Specific operating activities	113,739	-	-	113,739	-	113,739
Restricted, nonexpendable for minority interests	-	-	-	-	668,527	668,527
Unrestricted	72,702,871	156,008	3,284,981	76,143,860	(255,498)	75,888,362
Total net position	155,812,027	2,319,013	3,284,981	161,416,021	(1,230,823)	160,185,198
Total liabilities, deferred inflows of resources, and net position	$ 558,490,994	$ 5,118,403	$ 4,099,244	$ 567,708,641	$ (1,857,231)	$ 565,851,410

See accompanying report of independent auditors.

Antelope Valley Healthcare District
Schedule of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2020

	AVHD	AVOIC	AVHF	Total	Eliminations	Total
OPERATING REVENUES						
Net patient service revenue	$ 388,501,387	$ 15,418,839	$ -	$ 403,920,226	$ -	$ 403,920,226
Supplemental funding	42,930,171	-	-	42,930,171		42,930,171
Other revenue	4,386,063	-	-	4,386,063	(777,106)	3,608,957
Total operating revenue	435,817,621	15,418,839	-	451,236,460	(777,106)	450,459,354
OPERATING EXPENSES						
Salaries and wages	205,700,123	4,346,972	117,801	210,164,896	-	210,164,896
Employee benefits	63,765,884	653,503	-	64,419,387	-	64,419,387
Professional and medical fees	36,106,875	6,338,726	-	42,445,601	-	42,445,601
Purchased services	30,771,866	-	3,555	30,775,421	-	30,775,421
Supplies	66,858,812	1,100,250	1,566	67,960,628	-	67,960,628
Other expenses	17,841,303	2,336,918	198,540	20,376,761	(835,927)	19,540,834
Depreciation and amortization	19,253,867	653,081	-	19,906,948	-	19,906,948
Total operating expenses	440,298,730	15,429,450	321,462	456,049,642	(835,927)	455,213,715
OPERATING INCOME (LOSS)	(4,481,109)	(10,611)	(321,462)	(4,813,182)	58,821	(4,754,361)
NONOPERATING REVENUES (EXPENSES)						
Grant revenue and contributions	3,194,512	-	537,382	3,731,894	-	3,731,894
Transfer of funds to Hospital	-	-	(1,533,899)	(1,533,899)	1,533,899	-
CARES Act Provider Relief Funds	8,421,439	-	-	8,421,439	-	8,421,439
Investment income	8,179,290	-	9,771	8,189,061	-	8,189,061
Interest expense	(6,197,925)	(115,526)	-	(6,313,451)	-	(6,313,451)
Total nonoperating revenues (expenses), net	13,597,316	(115,526)	(986,746)	12,495,044	1,533,899	14,028,943
Income before capital contributions	9,116,207	(126,137)	(1,308,208)	7,681,862	1,592,720	9,274,582
CAPITAL CONTRIBUTIONS	1,533,899	-	-	1,533,899	(1,533,899)	-
TRANSFER OF NET POSITION	-	-	-	-	-	-
Change in net position	10,650,106	(126,137)	(1,308,208)	9,215,761	58,821	9,274,582
NET POSITION, beginning of year	145,161,921	2,445,150	4,593,189	152,200,260	(1,289,644)	150,910,616
NET POSITION, end of year	$ 155,812,027	$ 2,319,013	$ 3,284,981	$ 161,416,021	$ (1,230,823)	$ 160,185,198

See accompanying report of independent auditors.

Antelope Valley Healthcare District
Schedule of Net Position
June 30, 2019

	AVHD	AVOIC	AVHF	Total	Eliminations	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
CURRENT ASSETS						
Cash and cash equivalents	$ 45,971,720	$ 676,686	$ 4,815,848	$ 51,464,254	$ -	$ 51,464,254
Short-term investments	77,935,325	-	-	77,935,325	-	77,935,325
Restricted cash and investments, current	2,133,654	-	-	2,133,654	-	2,133,654
Patient accounts receivable, net	58,199,641	2,574,400	-	60,774,041	-	60,774,041
Other receivables, net	1,559,856	29,846	-	1,589,702	(321,983)	1,267,719
Supplies inventory	6,198,852	87,556	-	6,286,408	-	6,286,408
Prepaid expenses and other current assets	3,422,859	8,281	-	3,431,140	-	3,431,140
Total current assets	195,421,907	3,376,769	4,815,848	203,614,524	(321,983)	203,292,541
NONCURRENT CASH AND INVESTMENTS						
Held by trustee	18,211,932	-	-	18,211,932	-	18,211,932
Less amounts required to meet current obligations	2,106,396	-	-	2,106,396	-	2,106,396
	16,105,536	-	-	16,105,536	-	16,105,536
Other long-term investments	91,820,595	-	-	91,820,595	-	91,820,595
Total noncurrent cash and investments	107,926,131	-	-	107,926,131	-	107,926,131
CAPITAL ASSETS, not being depreciated	9,869,241	-	-	9,869,241	-	9,869,241
CAPITAL ASSETS, net of accumulated depreciation	181,616,798	2,853,228	-	184,470,026	-	184,470,026
OTHER ASSETS	5,767,419	-	-	5,767,419	(1,289,644)	4,477,775
Total noncurrent assets	305,179,589	2,853,228	-	308,032,817	(1,289,644)	306,743,173
Total assets	500,601,496	6,229,997	4,815,848	511,647,341	(1,611,627)	510,035,714
DEFERRED OUTFLOWS OF RESOURCES						
Net difference between expected and actual earnings on pension plan investments	8,601,463	-	-	8,601,463	-	8,601,463
Deferred loss on debt defeasance	1,354,534	-	-	1,354,534	-	1,354,534
	9,955,997	-	-	9,955,997	-	9,955,997
Total assets and deferred outflows of resources	$ 510,557,493	$ 6,229,997	$ 4,815,848	$ 521,603,338	$ (1,611,627)	$ 519,991,711

(Continued)

Antelope Valley Healthcare District
Schedule of Net Position (continued)
June 30, 2019

	AVHD	AVOIC	AVHF	Total	Eliminations	Total
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION						
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	$ 29,755,551	$ 897,844	$ 222,659	$ 30,876,054	$ (321,983)	$ 30,554,071
Accrued payroll and related expenses	15,607,711	422,440	-	16,030,151	-	16,030,151
Current maturities of long-term debt	6,691,905	835,748	-	7,527,653	-	7,527,653
Accrued self-insurance liabilities, current portion	7,587,533	-	-	7,587,533	-	7,587,533
Accrued interest payable	2,106,396	-	-	2,106,396	-	2,106,396
Estimated third-party payor settlements	22,812,805	-	-	22,812,805	-	22,812,805
Total current liabilities	84,561,901	2,156,032	222,659	86,940,592	(321,983)	86,618,609
LONG-TERM DEBT, net of current portion	133,249,003	1,628,815	-	134,877,818	-	134,877,818
ACCRUED SELF-INSURANCE LIABILITIES, net of current portion	16,291,112	-	-	16,291,112	-	16,291,112
PENSION LIABILITY	125,758,943	-	-	125,758,943	-	125,758,943
Total liabilities	359,860,959	3,784,847	222,659	363,868,465	(321,983)	363,546,482
DEFERRED INFLOWS OF RESOURCES						
Differences between actual and expected pension experience	5,534,613	-	-	5,534,613	-	5,534,613
NET POSITION						
Members' contributed capital	-	1,590,730	-	1,590,730	(1,590,730)	-
Net investment in capital assets	71,111,597	388,665	-	71,500,262	-	71,500,262
Restricted, expendable for						
Workers' compensation collateral	27,258	-	-	27,258	-	27,258
Specific operating activities	98,692	-	-	98,692	-	98,692
Restricted, nonexpendable for minority interests	-	-	-	-	706,368	706,368
Unrestricted	73,924,374	465,755	4,593,189	78,983,318	(405,282)	78,578,036
Total net position	145,161,921	2,445,150	4,593,189	152,200,260	(1,289,644)	150,910,616
Total liabilities, deferred inflows of resources, and net position	$ 510,557,493	$ 6,229,997	$ 4,815,848	$ 521,603,338	$ (1,611,627)	$ 519,991,711

See accompanying report of independent auditors.

Antelope Valley Healthcare District
Schedule of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2019

	AVHD	AVOIC	AVHF	DHSDC	Total	Eliminations	Total
OPERATING REVENUES							
Net patient service revenue	$ 370,970,333	$ 16,932,462	$ -	$ -	$ 387,902,795	$ -	$ 387,902,795
Supplemental funding	59,165,119	-	-	-	59,165,119	-	59,165,119
Other revenue	5,245,345	31,389	-	-	5,276,734	(767,075)	4,509,659
Total operating revenue	435,380,797	16,963,851	-	-	452,344,648	(767,075)	451,577,573
OPERATING EXPENSES							
Salaries and wages	192,275,958	4,718,731	124,816	-	197,119,505	-	197,119,505
Employee benefits	62,447,081	722,347	-	-	63,169,428	-	63,169,428
Professional and medical fees	35,341,927	7,451,945	-	-	42,793,872	-	42,793,872
Purchased services	27,719,530	-	5,282	-	27,724,812	-	27,724,812
Supplies	59,226,872	1,047,591	1,789	-	60,276,252	-	60,276,252
Other expenses	25,191,975	2,464,320	210,490	-	27,866,785	(510,727)	27,356,058
Depreciation and amortization	19,233,613	217,918	-	-	19,451,531	-	19,451,531
Total operating expenses	421,436,956	16,622,852	342,377	-	438,402,185	(510,727)	437,891,458
OPERATING INCOME (LOSS)	13,943,841	340,999	(342,377)	-	13,942,463	(256,348)	13,686,115
NONOPERATING REVENUES (EXPENSES)							
Grant revenue and contributions	3,406,488	-	603,259	-	4,009,747	165,600	4,175,347
Investment income	8,780,712	-	-	-	8,780,712	-	8,780,712
Dividend to parents	-	(250,000)	-	-	(250,000)	175,000	(75,000)
Interest expense	(6,382,552)	(81,787)	8,915	-	(6,455,424)	-	(6,455,424)
Total nonoperating revenues (expenses), net	5,804,648	(331,787)	612,174	-	6,085,035	340,600	6,425,635
Income (loss) before capital contributions	19,748,489	9,212	269,797	-	20,027,498	84,252	20,111,750
CAPITAL CONTRIBUTIONS	165,600	-	-	-	165,600	(165,600)	-
TRANSFER OF NET POSITION	(68,184)	-	-	68,184	-	-	-
Change in net position	19,845,905	9,212	269,797	68,184	20,193,098	(81,348)	20,111,750
NET POSITION, beginning of year	125,316,016	2,435,938	4,323,392	(68,184)	132,007,162	(1,208,296)	130,798,866
NET POSITION, end of year	$ 145,161,921	$ 2,445,150	$ 4,593,189	$ -	$ 152,200,260	$ (1,289,644)	$ 150,910,616