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

ANTELOPE VALLEY HEALTHCARE DISTRICT

June 30, 2019 and 2018

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, 2019, 2018, and 2017. We encourage the reader to consider the information presented here in conjunction with the financial statements as a whole.

Introduction to the Financial Statements

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

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

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

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

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

The District is a political subdivision of the State of California organized and existing under the provisions of the Local Health Care District Law of the State of California. The District is located in Lancaster, California, and is governed by a five-member Board of Directors elected by voters within the District. Unless otherwise indicated, amounts presented in management's discussion and analysis are in thousands. All references to years refer to the fiscal years ending June 30.

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 $20,112 or 15.4% in 2019 over 2018.

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

	2019	2018	2017
ASSETS			
Patient accounts receivable, net	$ 60,774	$ 54,640	$ 56,770
Other current assets	142,518	127,725	101,412
Capital assets, net	194,339	183,001	161,584
Other noncurrent assets	112,404	99,935	113,634
Total assets	510,035	465,301	433,400
DEFERRED OUTFLOWS OF RESOURCES	9,956	15,829	25,082
Total assets and deferred outflows of resources	$ 519,991	$ 481,130	$ 458,482
LIABILITIES			
Long-term debt (including current portion)	$ 142,405	$ 144,442	$ 151,365
Other current and noncurrent liabilities	221,141	197,534	198,795
Total liabilities	363,546	341,976	350,160
DEFERRED INFLOWS OF RESOURCES	5,535	8,356	3,072
NET POSITION			
Net investment in capital assets	71,500	64,282	47,460
Restricted, expendable	126	1,259	1,318
Restricted, nonexpendable	706	704	653
Unrestricted	78,578	64,553	55,819
Total net position	150,910	130,798	105,250
Total liabilities, deferred inflows of resources, and net position	$ 519,991	$ 481,130	$ 458,482

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 2018 to 2019 – *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. Charity care write-offs totaled $9,092 in 2019, a decrease of 8.8% from 2018.

Other current assets increased $14,793 or 11.6% from 2018 to 2019 mainly due to the reduction in purchasing of capital assets of approximately $10,000 in FY 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.

Other noncurrent assets increased $12,469 or 12.5% from 2018 to 2019 due to the receipt of various supplemental funds.

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

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

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

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

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

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):

	2019	2018	2017
OPERATING REVENUE			
Net patient service revenue	$ 438,000	$ 437,588	$ 446,025
Other	13,578	19,002	10,822
Total operating revenues	451,578	456,590	456,847
OPERATING EXPENSES			
Salaries and wages and employee benefits	246,876	239,440	223,817
Purchased services and professional fees	83,931	76,270	80,084
Other operating expenses	87,633	99,571	103,715
Depreciation and amortization	19,452	14,910	14,341
Total operating expenses	437,892	430,191	421,957
OPERATING INCOME	13,686	26,399	34,890
NONOPERATING REVENUES (EXPENSES)			
Grant revenue and contributions	4,175	3,888	3,809
Investment income	8,781	2,194	1,031
Dividend	(75)	(150)	-
Interest expense	(6,455)	(6,782)	(8,143)
Total nonoperating expenses, net	6,426	(850)	(3,303)
Change in net position	$ 20,112	$ 25,549	$ 31,587

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 $12,713 or 48.2% in 2019 as compared to 2018 and decreased by $8,491 or 24.3% in 2018 as compared to 2017. The primary components of the changes in operating income are as follows:

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

Changes from 2018 to 2019 – *Net patient service revenue* for the District approximated $438,000 for both 2019 and 2018. There was an overall decrease in net patient service revenue from 2018 to 2019 as a result of decreased patient volumes, which was offset by an increase in supplemental funding in 2019, as discussed in their respective sections below:

Patient Volumes

Inpatient Business Activity

	2019 Days	2018 Days	% Change
Acute Patient Days by Payor:			
Medicare	16,959	18,855	-10.1%
Medicare Managed Care	11,841	11,795	0.4%
Medi-Cal	10,357	13,162	-21.3%
Medi-Cal Managed Care	22,740	22,251	2.2%
Commercial managed care	14,719	15,460	-4.8%
Other	1,320	1,489	-11.3%
Self pay	1,498	650	130.5%
	79,434	83,662	-5.1%

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 (5.42%), from 9,495 in 2018 to 8,980 in 2019. Inpatient surgeries decreased by 917 cases (19.9%), from 4,591 in 2018 to 3,674 in 2019. Outpatient surgeries increased by 565 cases (17.5%) and inpatient surgeries in the Women & Infants Pavilion decreased by 163 cases (9.76%).

Outpatient Business Activity

Outpatient gross revenue charges increased approximately $17,414 or 3% 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

	2019	2018
California Hospital Quality Assurance Fee (HQAF) program	$ 18,957	$ 13,395
Assembly Bill 113	4,928	14,743
Medi-Cal Managed Care Rate Range Program	-	318
Trauma center fund	6,509	4,719
Disproportionate Share Hospital programs	19,426	(8,006)
Cost report settlements and other	277	1,720
Subtotal	50,097	26,889
IGT fees*:		
HQAF	3,979	1,781
Assembly Bill 113	2,708	6,009
Net supplemental funds	$ 43,410	$ 19,099

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

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 revenue, other for the District decreased by $5,424 or 28.5% in 2019 compared to 2018. In 2019, the District received $9,068 for the PRIME Program, which is a 40% decrease compared to $15,136 received in 2018. The District also recognized $611 for the Medicare and Medi-Cal Meaningful Use Program in 2019, compared to $368 reimbursement for the same program in 2018.

Operating expenses increased $7,701 or 1.8% in 2019 as compared to 2018. Increases were mainly attributable to the following:

- Productive wages increased $5,823
- Non-productive wages increased $1,614

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

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

Patient Volumes

Inpatient Business Activity

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

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

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

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

Outpatient Business Activity

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

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

Supplemental Funding

	2018	2017
California Hospital Quality Assurance Fee Program (HQAF)	$ 13,395	$ 23,752
Assembly Bill 113	14,743	12,388
Medi-Cal Managed Care Rate Range Program	318	11,780
Trauma center fund	4,719	7,865
Disproportionate Share Hospital programs	(8,006)	7,734
Cost report settlements and other	1,720	3,654
Subtotal	26,889	67,173
IGT fees*:		
HQAF	1,781	6,891
Assembly Bill 113	6,009	6,807
Medi-Cal Managed Care Rate Range Program	-	7,061
Net supplemental funds	$ 19,099	$ 46,414

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

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

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

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

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

These increases were offset by decreases attributable to the following:

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

The District's Cash Flows

Net cash provided by operating activities decreased $5,718 or 9.3% from 2018 to 2019 mainly due to improved collections on patient accounts receivable and various supplemental funding, and a decrease in payments to suppliers and contractors, offset by an increase in salary costs. Net cash provided by operating activities increased $7,230 or 13.4% from 2017 to 2018 mainly due to improved collections on patient accounts receivable and various supplemental funding, and a decrease in payments to suppliers and contractors, offset by an increase in salary costs.

Capital Asset and Debt Administration Capital Assets

At the end of 2019, 2018, and 2017, the District had $194,339, $183,001, and $161,584, respectively, in capital assets, net of accumulated depreciation, as detailed in Note 6 to the basic financial statements. The District expended $11,338, $17,473, and $5,140 in 2019, 2018, and 2017, respectively, related to new information technology and surgical equipment, and expenditures related to other infrastructure projects. Also during 2019, 2018, and 2017, the District expended $750, $0, and $1,979, respectively, on buildings and leasehold improvements.

Debt

The District had $142,405, $144,442, and $151,365 in outstanding debt as of June 30, 2019, 2018, and 2017, 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 January 2019, Moody's affirmed the District's Series 2016A, Ba3 and revised its outlook to negative.

Economic Factors on the Fiscal Year 2020 and Beyond

The District continues to face challenges in the evolving landscape of the health care industry. The industry continues to move towards more value-based care, the use of limited provider networks, and shifting more of the costs to consumers through the use of high deductible health plans. These trends require hospitals to improve efficiencies and quality outcomes to respond to the increased rules and regulations and lower reimbursements from payers. The Medicare value-based purchasing program measures the following metrics: processes-of-care, patient experience, patient outcomes, and efficiencies.

The trend of encouraging traditional Medi-Cal patients to move to Medi-Cal Managed Care plans will continue in order for governments to achieve their goal of increased savings through reduced hospital services. During 2019, the District's Medi-Cal Managed Care percentage (in terms of gross charges) increased from 28.0% of total net patient service revenue in 2018 to 29.3% in 2019. As will be discussed later, the District entered into a limited capitation agreement in 2019 with a Medi-Cal Managed Care plan.

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

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 2020 1115 waiver. Its goal is to promote significant improvement in the way that care is delivered through California's safety net hospitals. PRIME is funded by intergovernmental transfers (IGT) from the public hospitals for the purpose of accessing the federal Medicaid matching funds. PRIME will continue until December 2020, at which time, it is anticipated that a new five-year quality program will be implemented by the State of California.

As a trauma center, the District receives Los Angeles County Measure B trauma funds. During 2019, the District received $6,500 in trauma funds and treated approximately 1,300 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 Medi-Cal population. At that time, approximately 1.4 million California residents were added to the Medicaid program. This expansion reduced the amount of self-pay and uncompensated care for hospitals across the state, including the District.

The District focuses on appropriate reimbursement in contracting and is actively negotiating its insurance contracts to ensure that it maintains competitive reimbursement rates over the coming years. In 2018, the District negotiated a ten-year agreement with Kaiser Permanente. The purpose of the long-term agreement was to solidify its relationship and to provide stability and financial sustainability.

The District commits significant capital expenditures in the coming years on projects to improve its operations. The first major expenditure is a 40-bed expansion of its emergency department. The emergency department sees over 125,000 patient visits per year in a space that was designed for less than 50,000 patient visits per year. In addition to upgrading medical equipment and the pharmacy distribution system, a bi-plane radiography unit for the stroke program will be installed later this year. The Antelope Valley Hospital Foundation has committed over $1,600 toward internal renovations of the hospital. As will be discussed later, the District is in the planning stages to construct a replacement hospital by 2025.

Capitation Agreement

In April 2019, the District entered into its first capitation agreement with a Medi-Cal Managed Care health service plan (Plan). The agreement covers approximately 14,000 Medi-Cal lives in the Antelope Valley of California. 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 and at 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 not provided by Antelope Valley Hospital, e.g., transplant, hospice, skilled nursing, physician professional services, outpatient dialysis, and procedures performed at outpatient surgery and rehabilitation centers.

Electronic Medical Records System

In September 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 entire revenue cycle module. Improvements, modifications, and upgrades of the EMR system have been ongoing during the year. The system was capitalized at a cost of $35,000. As indicated in Note 8 of the basic financial statements, the cost of the project was financed by cash reserves and a $20,000 loan. The District has committed to support services from Cerner through March 2024 and may renew the license and related 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 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. The time table includes the completion of architectural plans by July 2020, and construction would begin by January 2022 with the project's projected completion date in 2025.

Financing for this project would include the combination of publicly supported general obligation bonds payable from the approved levy and collection of ad valorem taxes and from the sale of revenue bonds directly secured by revenues of the Antelope Valley Hospital enterprise. A ballot issue for the approval of the general obligation bonds is planned for the March 2020 primary election.

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.

At the February 2019 meeting of the District Board, it was decided to discontinue plans to go forward with this new operating structure. At that meeting, the Hospital Asset Transfer and Hospital Lease agreements between the District and the new entity were terminated. The District Board also authorized the voluntary dissolution of the new entity.

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.

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, 2019 and 2018, 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, 2019 and 2018, 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 12 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 56 through 57, 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 58 through 63 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Moss Adams LLP

Irvine, California
November 15, 2019

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ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	June 30, 2019	June 30, 2018
CURRENT ASSETS		
Cash and cash equivalents	$ 51,464,254	$ 28,483,907
Short-term investments	77,935,325	84,794,353
Restricted cash and investments, current	2,133,654	2,117,113
Patient accounts receivable, net of estimated uncollectible accounts of $49,725,752 in 2019 and $28,158,804 in 2018	60,774,041	54,639,695
Other receivables, net of estimated uncollectible accounts of $289,000 in 2019 and $194,500 in 2018	1,267,719	3,893,856
Supplies inventory	6,286,408	6,132,035
Prepaid expenses and other current assets	3,431,140	2,304,355
Total current assets	203,292,541	182,365,314
NONCURRENT CASH AND INVESTMENTS		
Held by trustee	18,211,932	23,931,730
Less amounts required to meet current obligations	2,106,396	2,089,896
	16,105,536	21,841,834
Other long-term investments	91,820,595	73,617,079
Total noncurrent cash and investments	107,926,131	95,458,913
CAPITAL ASSETS, not being depreciated	9,869,241	9,869,241
CAPITAL ASSETS, net of accumulated depreciation	184,470,026	173,131,854
OTHER ASSETS	4,477,775	4,475,807
Total noncurrent assets	306,743,173	282,935,815
Total assets	510,035,714	465,301,129
DEFERRED OUTFLOWS OF RESOURCES		
Net difference between expected and actual earnings on pension plan investments (Note 10)	8,601,463	14,038,744
Deferred loss on debt defeasance (Note 8)	1,354,534	1,790,422
Total deferred outflows of resources	9,955,997	15,829,166
Total assets and deferred outflows of resources	$ 519,991,711	$ 481,130,295

(continued)

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	June 30, 2019	June 30, 2018
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 30,554,071	$ 26,556,172
Accrued payroll and related expenses	16,030,151	15,512,138
Current maturities of long-term debt	7,527,653	6,534,783
Accrued self-insurance liabilities, current portion	7,587,533	6,510,980
Accrued interest payable	2,106,396	2,089,896
Estimated third-party payor settlements	22,812,805	3,677,888
Total current liabilities	86,618,609	60,881,857
LONG-TERM DEBT, net of current portion	134,877,818	137,906,894
ACCRUED SELF-INSURANCE LIABILITIES, net of current portion	16,291,112	15,054,185
PENSION LIABILITY	125,758,943	128,132,582
Total liabilities	363,546,482	341,975,518
DEFERRED INFLOWS OF RESOURCES		
Differences between actual and expected pension experience (Note 10)	5,534,613	8,355,911
NET POSITION		
Net investment in capital assets	71,500,262	64,281,570
Restricted, expendable for:		
Workers' compensation collateral	27,258	27,217
Specific operating activities	98,692	1,231,537
Restricted, non-expendable for minority interests	706,368	703,604
Unrestricted	78,578,036	64,554,938
Total net position	150,910,616	130,798,866
Total liabilities, deferred inflows of resources, and net position	$ 519,991,711	$ 481,130,295

 See accompanying notes.

	Years Ended June 30,	
	2019	2018
OPERATING REVENUES		
Net patient service revenue, net of provision for uncollectible accounts of $38,982,926 in 2019 and $19,880,645 in 2018	$ 437,999,968	$ 437,587,663
Other revenue	13,577,605	19,002,071
Total operating revenues	451,577,573	456,589,734
OPERATING EXPENSES		
Salaries and wages	183,706,901	177,883,898
Employee benefits	63,169,428	61,555,678
Professional and medical fees	56,206,476	49,522,198
Purchased services	27,724,812	26,747,672
Supplies	60,276,252	66,029,613
Other expenses	27,356,058	33,541,968
Depreciation and amortization	19,451,531	14,910,092
Total operating expenses	437,891,458	430,191,119
OPERATING INCOME	13,686,115	26,398,615
NONOPERATING REVENUES (EXPENSES)		
Grant revenue and contributions	4,175,347	3,888,365
Investment income	8,780,712	2,194,008
Dividend	(75,000)	(150,000)
Interest expense	(6,455,424)	(6,782,399)
Total nonoperating expenses, net	6,425,635	(850,026)
Change in net position	20,111,750	25,548,589
NET POSITION, beginning of year	130,798,866	105,250,277
NET POSITION, end of year	$ 150,910,616	$ 130,798,866

Antelope Valley Healthcare District
Statements of Cash Flows

	Years Ended June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	$ 451,000,539	$ 449,436,364
Payments to suppliers and contractors	(165,971,029)	(169,632,589)
Payments to employees	(245,669,919)	(235,549,486)
Other receipts and payments, net	16,234,583	17,057,842
Net cash provided by operating activities	55,594,174	61,312,131
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from grants and contributions	4,069,506	3,785,630
Net cash provided by noncapital financing activities	4,069,506	3,785,630
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(26,334,668)	(36,103,325)
Principal repayments on long-term debt	(6,801,309)	(7,410,785)
Interest payments on long-term debt	(6,703,337)	(7,184,093)
Net cash used in capital and related financing activities	(39,839,314)	(50,698,203)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(11,473,896)	(63,296,875)
Proceeds from sale of investments	5,849,165	18,413,807
Interest and dividends received on investments	8,780,712	2,194,008
Net cash provided by/(used in) investing activities	3,155,981	(42,689,060)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	22,980,347	(28,289,502)
CASH AND CASH EQUIVALENTS, beginning of year	28,483,907	56,773,409
CASH AND CASH EQUIVALENTS, end of year	$ 51,464,254	$ 28,483,907

(continued)

 See accompanying notes.

	Years Ended June 30, 2019	2018
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 13,686,115	$ 26,398,615
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for bad debts	38,982,926	19,880,645
Depreciation and amortization	19,451,531	14,910,092
Loss on disposal of assets	574,481	665,600
Changes in assets and liabilities:		
Patient accounts receivable, net	(45,117,272)	(17,750,126)
Other receivables, net	2,656,978	(1,944,229)
Supplies inventory and prepaid expenses and other current assets	(1,281,158)	(88,276)
Estimated third-party payor settlements	19,134,917	9,718,182
Other assets	(1,968)	(75,562)
Deferred outflows and inflows of resources	3,051,871	14,537,028
Accounts payable and accrued liabilities	3,997,899	5,689,524
Accrued payroll and related expenses	518,013	1,222,290
Accrued self-insurance liabilities	2,313,480	(354,835)
Pension liability	(2,373,639)	(11,496,817)
Net cash provided by operating activities	$ 55,594,174	$ 61,312,131
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Amortization of bond premium	$ 183,049	$ 183,049
Capital assets acquired through capital leases	$ 4,948,152	$ 670,756

Note 1 – Nature of Operations and Reporting Entity

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

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

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.

At the February 2019 meeting of the District board, it was decided to discontinue plans to go forward with this new operating structure. At that meeting, the Hospital Asset Transfer and Hospital Lease agreements between the District and the new entity were terminated. The District Board also authorized the voluntary dissolution of the new entity.

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 Desert Hills Sleep Disorder Center, LLC (DHSDC) is a legally separate entity which operated a sleep diagnostic facility in Lancaster, California until operations were ceased during the fiscal year ended June 30, 2016, at which time all operating equipment was sold or disposed. The District owns 60% of the DHSDC and can unilaterally make operating decisions such as establishing a budget or issuing debt. The District determined that DHSDC met the criteria of a blended component unit under GASB Statement No. 61 as the governing bodies were substantially the same and because the operations were managed by the District similar to other hospital departments. The District dissolved DHSDC during the year ended June 30, 2019.

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

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

	AVOIC	AVHF	DHSDC
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	DHSDC
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	-
TRANSFER OF NET POSITION TO AVH	-	-	68,184
Change in net position	9,212	269,797	68,184
BEGINNING, net position	2,435,938	4,323,392	(68,184)
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	DHSDC
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)	(13,422)
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	(13,422)
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 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	431,181	437,178	(13,422)
CASH AND CASH EQUIVALENTS, beginning of year	245,505	4,378,670	13,422
CASH AND CASH EQUIVALENTS, end of year	$ 676,686	$ 4,815,848	$ -

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, 2018, is as follows:

Condensed Statements of Net Position
As of June 30, 2018

	AVOIC	AVHF	DHSDC
ASSETS			
Patient accounts receivable, net	$ 3,005,063	$ -	$ -
Other current assets	354,715	4,378,732	13,422
Capital assets, net	882,754	-	-
Total assets	$ 4,242,532	$ 4,378,732	$ 13,422
LIABILITIES			
Due to the District	$ 20,252	$ 55,340	$ 81,606
Other current liabilities	1,545,821	-	-
Long-term liabilities	240,521	-	-
Total liabilities	1,806,594	55,340	81,606
NET POSITION			
Net investment in capital assets	330,479	-	-
Restricted, expendable	-	1,132,822	-
Restricted, nonexpendable	1,170,449	-	280,000
Unrestricted	935,010	3,190,570	(348,184)
Total net position	2,435,938	4,323,392	(68,184)
Total liabilities and net position	$ 4,242,532	$ 4,378,732	$ 13,422

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

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

	AVOIC	AVHF	DHSDC
OPERATING REVENUE			
Net patient service revenue	$ 17,147,192	$ -	$ -
Other	36,263	-	-
Total operating revenues	17,183,455	-	-
OPERATING EXPENSES			
Salaries, wages, and employee benefits	5,249,814	91,735	-
Purchased services and professional fees	7,505,766	3,360	-
Supplies	995,649	1,108	-
Other operating expenses	2,427,231	201,695	-
Depreciation and amortization	292,526	-	-
Total operating expenses	16,470,986	297,898	-
OPERATING INCOME (LOSS)	712,469	(297,898)	-
NONOPERATING REVENUES/(EXPENSES)			
Grant revenue and contributions	-	42,446	-
Dividend	(500,000)	-	-
Interest expense	(42,188)	1,105	-
Total nonoperating revenues/ (expenses), net	(542,188)	43,551	-
Change in net position	170,281	(254,347)	-
BEGINNING NET POSITION	2,265,657	4,577,739	(68,184)
ENDING NET POSITION	$ 2,435,938	$ 4,323,392	$ (68,184)

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

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

	AVOIC	AVHF	DHSDC
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from and on behalf of patients	$ 16,470,918	$ -	$ -
Payments to suppliers and contractors	(11,055,271)	(187,396)	-
Payments to employees	(5,289,507)	(91,735)	-
Other receipts and payments, net	71,674	43,553	-
Net cash provided by (used in) operating activities	197,814	(235,578)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(811,602)	-	-
Principal repayments on long-term debt	(144,254)	-	-
Interest payments on long-term debt	(42,188)	-	-
Net cash used in capital and related financing activities	(998,044)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES	-	-	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(800,230)	(235,578)	-
CASH AND CASH EQUIVALENTS, beginning of year	1,045,735	4,614,248	13,422
CASH AND CASH EQUIVALENTS, end of year	$ 245,505	$ 4,378,670	$ 13,422

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 $4,368,000 and $4,366,000 as of June 30, 2019 and 2018, 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 and DHSDC.

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, 2019 and 2018.

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 $5,000 for all asset classifications and for items with a useful life of more than two years.

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

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

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

Note 2 – Summary of Significant Accounting Policies (continued)

The District capitalizes interest costs as a component of construction in progress based on the weighted-average rates paid for long-term borrowings. Total interest capitalized and incurred during fiscal years ended June 30, 2019 and 2018 was as follows:

	2019	2018
Interest capitalized	$ 81,364	$ 218,642
Interest charged to expense	6,455,424	6,782,399
Total interest incurred	$ 6,536,788	$ 7,001,041

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, 2019 and 2018.

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

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

Note 2 – Summary of Significant Accounting Policies (continued)

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and workers' compensation claims. During fiscal year 2019, 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, 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. During the fiscal year ended June 30, 2018, the District increased its estimated amounts due from third-party payors and increased net patient service revenue by approximately $2,500,000 due to changes in accounting estimates related to prior periods.

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, 2019, the District increased its net patient service revenue by approximately $3,800,000 due to changes in accounting estimates related to prior periods. During the fiscal year ended June 30, 2018, the District increased its net patient service revenue by approximately $5,800,000 due to changes in accounting estimates related to prior periods, including settlements with two payors on accounts that were fully reserved of approximately $2,400,000.

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 2019 and 2018, the District received approximately $3,230,000 and $3,096,000, 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 2019 and 2018, the District received approximately $779,000 and $792,000, respectively, in other grant and contribution income. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes.

Operating revenues and expenses – The Statements of Revenues, Expenses, and Changes in Net Position 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 November 2016, GASB Statement No. 83, *Certain Asset Retirement Obligations* establishes standards of accounting and financial reporting for certain Asset Retirement Obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. Implementation of this statement did not have an impact on the financial statements of the District.

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

Note 2 – Summary of Significant Accounting Policies (continued)

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

Issued in March 2018, GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. Implementation of this statement did not have an impact on the financial statements of the District.

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

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, 2020.

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, 2016.

Note 3 – Net Patient Service Revenue (continued)

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 64% and 67% of net patient service revenue is from participation in the Medicare and state-sponsored Medi-Cal programs for the fiscal years ended June 30, 2019 and 2018, 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:

	2019	2018
Cash on hand	$ 3,740	$ 3,740
Deposits	68,510,036	46,678,857
Investments	170,945,588	164,171,689
Total cash and investments	$ 239,459,364	$ 210,854,286

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

	2019	2018
Cash and cash equivalents	$ 51,464,254	$ 28,483,907
Short-term investments	77,935,325	84,794,353
Restricted cash and investments, current	2,133,654	2,117,113
Noncurrent cash and investments	107,926,131	95,458,913
Total cash and investments	$ 239,459,364	$ 210,854,286

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

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

As of June 30, 2019 and 2018, approximately $19,928,000 and $15,511,000, 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 $5,492,000 and $4,638,000 as of June 30, 2019 and 2018, 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 $4,262,000 and $3,404,000 as of June 30, 2019 and 2018, respectively.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

		Investment Maturities (In Years)		
Investment Type	Fair Value	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

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

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

		Investment Maturities (In Years)		
Investment Type	Fair Value	Less Than 1	1-5	More Than 5
External investment pool - LAIF	$ 48,162,205	$ 48,162,205	$ -	$ -
U.S. instrumentalities	36,943,684	13,642,485	12,714,625	10,586,574
Corporate bonds	51,514,111	11,358,878	34,210,726	5,944,507
U.S. Treasury	21,452,268	11,432,006	10,020,262	-
Held by trustee:				
Corporate bonds	6,099,421	6,099,421	-	-
	$ 164,171,689	$ 90,694,995	$ 56,945,613	$ 16,531,081

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, 2019 and 2018:

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

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the District's investments as disclosed in the table above as of June 30, 2019 and 2018, 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:

	2019		2018	
Investment Type	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
Federal National Mortgage Association	$ 26,830,974	16%	$ 19,410,885	12%
Federal Home Loan Mortgage Corporation	7,131,623	4%	11,626,622	7%

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

	2019	2018
Interest, dividends, and realized gains on sales of investments	$ 8,603,800	$ 2,264,499
Net increase/(decrease) in fair value of investments	176,912	(70,491)
	$ 8,780,712	$ 2,194,008

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:

	2019	2018
Medicare	29 %	30 %
Medi-Cal	42	33
Other third-party and commercial payors	28	36
Self-pay	1	1
Total	100 %	100 %

Note 6 – Capital Assets

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

Construction commitments for various construction projects approximate $9,069,000 as of June 30, 2019.

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

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

Note 7 – Self-Insurance Liabilities

Workers' compensation claims – The District is self-insured for the first $1,000,000 per occurrence of workers' compensation risks. The District purchases commercial insurance coverage above the self-insurance limits. Losses from asserted and unasserted claims identified under the District's incident reporting system are actuarially determined based on the District's past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. It is reasonably possible that the District's estimate of losses will change by a material amount in the near term. Unpaid claim liabilities were discounted using a discount rate of 1.56% in 2019 and in 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 2019, 2018, and 2017 is summarized as follows:

	2019	2018	2017
Balance, beginning of year	$ 12,666,000	$ 13,008,000	$ 13,092,999
Current year claims incurred and changes in estimates for claims incurred in the prior year	4,151,913	3,170,813	4,798,813
Claims and expenses paid	(4,541,913)	(3,512,813)	(4,883,812)
Balance, end of year	$ 12,276,000	$ 12,666,000	$ 13,008,000

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

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the fiscal year by estimating the probable ultimate costs of the incidents. Annual estimated provisions are accrued based on the District's past experience as well as other considerations, including the nature of the claim or incident and relevant trend factors. Losses from asserted and unasserted claims identified under the District's incident reporting system are actuarially determined based on the District's past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. It is reasonably possible that this estimate could change materially in the near term. Unpaid claim liabilities were discounted using a discount rate of 1.56% in 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 2019, 2018, and 2017 is summarized as follows:

	2019	2018	2017
BALANCE, beginning of year	$ 11,629,000	$ 7,912,000	$ 7,522,000
Current year claims incurred and changes in estimates for claims incurred in the prior years	7,766,372	5,405,475	1,560,064
Claims and expenses paid	(6,058,291)	(1,688,475)	(1,170,064)
BALANCE, end of year	$ 13,337,081	$ 11,629,000	$ 7,912,000

Accrued medical claims – The District provides certain health and dental benefits to enrollees that serve under contract to the hospital. The cost of medical services provided to these enrollees is accrued in the period that the services are rendered. A provision has been made for claims in process of review and for claims incurred but not reported at year end. The amount of this liability is computed using historical claims payment experience, and a review of experience for similar plans. Amounts accrued totaled approximately $1,626,000 and $1,610,000 as of June 30, 2019 and 2018, 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, 2019:

	2019				
	Beginning Balance	Additions	Payments and Reductions	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

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, 2018:

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

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, 2019 and 2018.

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, 2019 and 2018, the District amortized approximately $436,000 and $718,000, respectively, related to the deferred outflows of resources, which is included in interest expense on the statements of revenues, expenses, and changes in net position.

Note 8 – Long-Term Obligations (continued)

The Series 2016A bond service requirements as of June 30, 2019, are as follows:

	Total to be Paid or Amortized	Principal	Interest
Years Ending June 30,			
2020	$ 8,251,687	$ 2,185,000	$ 6,066,687
2021	8,252,437	2,295,000	5,957,437
2022	8,252,687	2,410,000	5,842,687
2023	8,252,187	2,530,000	5,722,187
2024	8,250,687	2,655,000	5,595,687
2025 - 2029	41,250,187	15,400,000	25,850,187
2030 - 2034	41,250,012	19,685,000	21,565,012
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	4,881,384	4,881,384	-
Total	$ 227,636,493	$ 125,126,384	$ 102,510,109

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, 2019 and 2018, the outstanding loan balance was $12,356,938 and $16,235,610, respectively, and the escrow fund balance was $0 and $6,234,000, respectively.

The annual debt service requirements on the equipment loan as of June 30, 2019, are as follows:

	Total to be Paid	Principal	Interest
Years Ending June 30,			
2020	$ 4,311,894	$ 3,996,425	$ 315,469
2021	4,311,893	4,117,751	194,142
2022	4,311,894	4,242,762	69,132
Total	$ 12,935,681	$ 12,356,938	$ 578,743

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 $6,038,000 and $17,776,000 as of June 30, 2019 and 2018, net of accumulated depreciation of approximately $939,000 and $15,570,000 as of June 30, 2019 and 2018, respectively.

The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates ranging from 0.32% to 5.25% together with the present value of the future minimum lease payments as of June 30, 2019:

Years Ending June 30,	
2020	$ 1,497,342
2021	1,139,252
2022	1,041,026
2023	945,010
2024	679,686
Total minimum lease payments	5,302,316
Less amount representing interest	380,167
Present value of future minimum lease payments	$ 4,922,149

Note 9 – Restricted Net Position

As of June 30, 2019 and 2018, restricted expendable net position was available for the following purposes:

	2019	2018
Workers' compensation collateral	$ 27,258	$ 27,217
Specific operating activities	98,692	1,231,537
Total restricted expendable net position	$ 125,950	$ 1,258,754

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, 2019 or 2018.

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, 2019, are summarized as follows:

Benefit formula	1.6% @ 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, 2018 (Fiscal 2019)	Valuation Date July 1, 2017 (Fiscal 2018)
Active members	1,892	1,837
Terminated vested members not yet receiving benefits	1,375	1,357
Retirees and beneficiaries currently receiving benefits	861	785
Non-vested terminations with account balances	38	32
Total participants	4,166	4,011

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 2019 and 2018 were determined as part of actuarial valuation on July 1, 2018 and July 1, 2017, respectively, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a 7.00% investment rate of return in 2019 and 2018, and (b) projected salary increases of up to 7.00% per year in 2019 and 2018.

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, 2018 and 2017 rolled forward to June 30, 2019 and 2018, 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, 2018 and 2017 rolled forward to June 30, 2019 and 2018, respectively, using actuarial methods and assumptions in accordance with GASB Statement Nos. 67 and 68. The total pension liability was calculated using the entry age normal actuarial cost method and RP-2014 Annuitant and Employee Morality Table with Blue Collar adjustments for Males and Females projected using Scale BB to 2029 for PEPRA Participants and no projection for all other participants. The actuarial assumptions as of June 30, 2019, included (a) 7.0% 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, 2019 and 2018, was 7.00%. This single discount rate was based on the expected rate of return on pension plan investments of 7.00%. Based on the stated assumptions and the projection of cash flows, the Plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current pension plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine the Plan's discount rate assumes that contributions will continue at current levels for the current group of covered members with anticipated payroll increases of 3.00% annually.

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

The long-term expected rates of return for each major investment class in the Plan's portfolio as of June 30, 2019 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)
Changes in net pension liability			
BALANCES, as of June 30, 2017	$ 317,643,716	$ 178,014,317	$ 139,629,399
Changes for the year:			
Service cost	8,268,096	-	8,268,096
Interest on total pension liability	22,180,542	-	22,180,542
Effect of economic/demographic gains or losses	(8,105,314)	-	(8,105,314)
Effect of assumptions changes or inputs	129,155	-	129,155
Benefit payments	(9,825,764)	(9,825,764)	-
Employer contributions	-	18,559,927	(18,559,927)
Member contributions	-	1,048,104	(1,048,104)
Net investment income	-	14,388,611	(14,388,611)
Administrative expenses	-	(27,346)	27,346
BALANCES, as of June 30, 2018	$ 330,290,431	$ 202,157,849	$ 128,132,582
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
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	-	(395,285)	395,285
BALANCES, as of June 30, 2019	$ 351,277,112	$ 225,518,169	$ 125,758,943

Note 10 – Pension Plans (continued)

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

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Total pension liability	$ 400,202,062	$ 351,277,112	$ 310,682,913
Fiduciary net position	225,518,170	225,518,169	225,518,170
District's net pension liability	$ 174,683,892	$ 125,758,943	$ 85,164,743

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 $19,955,000 and $20,883,000 during the fiscal years ended June 30, 2019 and 2018, respectively. The District reported deferred outflows of resources and deferred inflows of resources as of June 30, 2019, as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between actual and expected experience	$ (5,534,613)	$ 2,951,269
Changes in assumptions or inputs	-	5,034,278
Net differences between projected and actual earnings on plan investments	-	615,916
Total	$ (5,534,613)	$ 8,601,463

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

	Annual Recognition
Years Ending June 30,	
2020	$ 3,611,950
2021	42,123
2022	(922,218)
2023	334,997

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, 2019 or 2018.

Note 12 – Commitments and Contingencies

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

During October 2018, the District was assessed a judgment of approximately $4,500,000 related to litigation resulting from two class action lawsuits. Amounts accrued related to such matters totaled $4,500,000 as of June 30, 2019 and 2018, and are included in accounts payable and accrued expenses in the statements of net position.

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 2019. Negotiations have been initiated on this contract renewal.

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 $5,217,000 and $6,769,000 during the fiscal years ended June 30, 2019 and 2018, respectively. The District subleases certain office suites to other businesses in Lancaster, CA. The lease term is for fifty years, expiring on August 31, 2062. The lease calls for monthly payments in the amount of approximately $4,000 adjusted for inflation every five years from the commencement date of the lease.

Note 12 – Commitments and Contingencies (continued)

Minimum future lease payments and sublease rental income offsets on existing non-cancelable leases as of June 30, 2019 are as follows:

	Minimum Future Lease Payments	Sublease Rental Income	Net
2020	$ 3,556,155	$ (43,750)	$ 3,512,405
2021	3,153,660	(43,750)	3,109,910
2022	2,994,483	(43,750)	2,950,733
2023	2,693,402	(43,750)	2,649,652
2024	1,537,772	(43,750)	1,494,022
Thereafter	7,769,017	(1,666,140)	6,102,877
Total minimum lease payments	$ 21,704,489	$ (1,884,890)	$ 19,819,599

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.

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:

2020	$ 6,726,620
2021	3,727,580
2022	3,727,580
2023	3,727,580
2024	2,795,685
Total minimum payments	$ 20,705,045

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. The time table includes the completion of architectural plans by July 2020, construction would begin by January 2022, with the project's projected completion date in 2025.

Note 14 – Revenue from Governmental Programs

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

Additional legislation has continued to extend the Program. During 2019 and 2018, 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 $18,957,000 and $13,395,000 in net patient service revenue during the fiscal years ended June 30, 2019 and 2018, respectively. The net impact of the Program resulted in an increase in net position of approximately $14,978,000 and $11,614,000 during the fiscal years ended June 30, 2019 and 2018, respectively.

IGT Program – During 2019 and 2018, 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 $4,928,000 and $14,743,000 in net patient service revenue during the fiscal years ended June 30, 2019 and 2018, respectively. Fees paid by the District into the IGT Program were approximately $2,708,000 and $6,008,000 during the fiscal years ended June 30, 2019 and 2018, respectively, and are included in other expenses. The net impact of the IGT Program resulted in an increase in net position of approximately $2,220,000 and $8,735,000 during the fiscal years ended June 30, 2019 and 2018, respectively.

Note 14 – Revenue from Governmental Programs (continued)

As of June 30, 2019 and 2018, the District has a reserve in the amount of $25,259,000 and $27,489,000, respectively, related to the anticipated requests to return SB1100 funds received for the fiscal years 2017, 2018, and 2019 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 of $12,899,000 based on recent court decisions resulting in a favorable outcome to California district hospitals. These amounts are included in estimated third-party payor settlements in the accompanying statements of net position.

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, 2019

	2019	2018	2017	2016	2015
Total pension liability					
Service cost	$ 7,747,622	$ 8,268,096	$ 7,016,415	$ 6,707,130	$ 6,480,319
Interest on total pension liability	23,009,137	22,180,542	20,593,745	19,660,531	18,338,307
Changes of assumptions	-	129,155	8,609,531	8,835,715	-
Difference between expected and actual experience	1,154,492	(8,105,314)	5,281,052	(5,190,447)	-
Benefit payments	(10,924,570)	(9,825,764)	(8,800,937)	(7,711,728)	(6,893,033)
Net change in total pension liability	20,986,681	12,646,715	32,699,806	22,301,201	17,925,593
Total pension liability Beginning of year	330,290,431	317,643,716	284,943,910	262,642,709	244,717,116
End of year (a)	$ 351,277,112	$ 330,290,431	$ 317,643,716	$ 284,943,910	$ 262,642,709
Plan fiduciary net position					
Employer contributions	$ 19,713,038	$ 18,559,927	$ 14,741,814	$ 18,711,728	$ 13,888,450
Member contributions	1,395,539	1,048,104	775,922	660,595	146,786
Net investment income	13,571,598	14,388,612	15,972,545	(1,737,867)	5,222,989
Administrative expenses	(395,285)	(27,346)	(25,943)	(47,692)	(74,122)
Benefit payments	(10,924,570)	(9,825,765)	(8,800,937)	(7,711,728)	(6,893,033)
Net change in plan fiduciary net position	23,360,320	24,143,532	22,663,401	9,875,036	12,291,070
Plan fiduciary net position Beginning of year	202,157,849	178,014,317	155,350,916	145,475,880	133,184,810
End of year (b)	$ 225,518,169	$ 202,157,849	$ 178,014,317	$ 155,350,916	$ 145,475,880
District's net pension liability (a) - (b)	$ 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	64.20%	61.21%	56.04%	54.52%	55.39%
Covered-employee payroll	$ 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	83.72%	90.02%	92.68%	87.74%	80.60%

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

Notes to Schedule:

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

Fiscal Year Ended	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Surplus)	Covered Payroll	Contribution as a % of Covered Payroll	Valuation Date	Investment Rate of Return Assumption
6/30/2019	$ 15,443,000	$ 19,713,038	$ (4,270,038)	$ 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, 2015: Healthy Combined RP-2014 mortality projected to 2029 using scale BB for PEPRA participants Effective July 1, 2009: Healthy Combined RP-2000 mortality projected to 2015 (2030 for PEPRA participants) Through July 1, 2008: 1983 Group Annuity Mortality Tables
Inflation	Effective July 1, 2015: 2.50% per year Effective July 1, 2007: 2.75% per year Through July 1, 2006: 3.0% per year
Salary Increases	Effective July 1, 2015: 7.0% - 3.0% by duration Effective July 1, 2010: 7.5% - 3.5% by duration Through July 1, 2009: 5.0% per year with merit increases
Retirement age:	Normal retirement at 65 years old; Early retirement at 55 years old and 10 years of service
Investment rate of return:	Effective July 1, 2016: 7.0%, net of investment expense, including inflation Effective July 1, 2015: 7.25%, net of investment expense, including inflation Effective July 1, 2014: 7.5%, net of investment expense, including inflation

Other Supplementary Information

	AVHD	AVOIC	AVHF	DHSDC	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	DHSDC	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 LIABILITIES	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

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	$ 421,067,506	$ 16,932,462	$ -	$ -	$ 437,999,968	$ -	$ 437,999,968
Other revenue	14,313,291	31,389	-	-	14,344,680	(767,075)	13,577,605
Total operating revenue	435,380,797	16,963,851	-	-	452,344,648	(767,075)	451,577,573
OPERATING EXPENSES							
Salaries and wages	178,863,354	4,718,731	124,816	-	183,706,901	-	183,706,901
Employee benefits	62,447,081	722,347	-	-	63,169,428	-	63,169,428
Professional and medical fees	48,754,531	7,451,945	-	-	56,206,476	-	56,206,476
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 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

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

	AVHD	AVOIC	AVHF	DHSDC	Total	Eliminations	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES							
CURRENT ASSETS							
Cash and cash equivalents	$ 23,846,248	$ 245,505	$ 4,378,732	$ 13,422	$ 28,483,907	$ -	$ 28,483,907
Short-term investments	84,794,353	-	-	-	84,794,353	-	84,794,353
Restricted cash and investments, current	2,117,113	-	-	-	2,117,113	-	2,117,113
Patient accounts receivable, net	51,634,632	3,005,063	-	-	54,639,695	-	54,639,695
Other receivables, net	4,026,381	24,861	-	-	4,051,242	(157,386)	3,893,856
Supplies inventory	6,072,931	59,104	-	-	6,132,035	-	6,132,035
Prepaid expenses and other current assets	2,279,110	25,245	-	-	2,304,355	-	2,304,355
Total current assets	174,770,768	3,359,778	4,378,732	13,422	182,522,700	(157,386)	182,365,314
NONCURRENT CASH AND INVESTMENTS							
Held by trustee	23,931,730	-	-	-	23,931,730	-	23,931,730
Less amounts required to meet current obligations	2,089,896	-	-	-	2,089,896	-	2,089,896
	21,841,834	-	-	-	21,841,834	-	21,841,834
Other long-term investments	73,617,079	-	-	-	73,617,079	-	73,617,079
Total noncurrent cash and investments	95,458,913	-	-	-	95,458,913	-	95,458,913
CAPITAL ASSETS, not being depreciated	9,869,241	-	-	-	9,869,241	-	9,869,241
CAPITAL ASSETS, net of accumulated depreciation	172,249,100	882,754	-	-	173,131,854	-	173,131,854
OTHER ASSETS	5,684,103	-	-	-	5,684,103	(1,208,296)	4,475,807
Total noncurrent assets	283,261,357	882,754	-	-	284,144,111	(1,208,296)	282,935,815
Total assets	458,032,125	4,242,532	4,378,732	13,422	466,666,811	(1,365,682)	465,301,129
DEFERRED OUTFLOWS OF RESOURCES							
Net difference between expected and actual earnings on pension plan investments	14,038,744	-	-	-	14,038,744	-	14,038,744
Deferred loss on debt defeasance	1,790,422	-	-	-	1,790,422	-	1,790,422
	15,829,166	-	-	-	15,829,166	-	15,829,166
Total assets and deferred outflows of resources	$ 473,861,291	$ 4,242,532	$ 4,378,732	$ 13,422	$ 482,495,977	$ (1,365,682)	$ 481,130,295

(Continued)

 See accompanying report of independent auditors.

	AVHD	AVOIC	AVHF	DHSDC	Total	Eliminations	Total
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION							
CURRENT LIABILITIES							
Accounts payable and accrued liabilities	$ 25,695,252	$ 881,360	$ 55,340	$ 81,606	$ 26,713,558	$ (157,386)	$ 26,556,172
Accrued payroll and related expenses	15,139,179	372,959	-	-	15,512,138	-	15,512,138
Current maturities of long-term debt	6,223,029	311,754	-	-	6,534,783	-	6,534,783
Accrued self-insurance liabilities, current portion	6,510,980	-	-	-	6,510,980	-	6,510,980
Accrued interest payable	2,089,896	-	-	-	2,089,896	-	2,089,896
Estimated third-party payor settlements	3,677,888	-	-	-	3,677,888	-	3,677,888
Total current liabilities	59,336,224	1,566,073	55,340	81,606	61,039,243	(157,386)	60,881,857
LONG-TERM DEBT, net of current portion	137,666,373	240,521	-	-	137,906,894	-	137,906,894
ACCRUED SELF-INSURANCE LIABILITIES, net of current portion	15,054,185	-	-	-	15,054,185	-	15,054,185
PENSION LIABILITY	128,132,582	-	-	-	128,132,582	-	128,132,582
Total liabilities	340,189,364	1,806,594	55,340	81,606	342,132,904	(157,386)	341,975,518
DEFERRED INFLOWS OF RESOURCES							
Differences between actual and expected pension experience	8,355,911	-	-	-	8,355,911	-	8,355,911
NET POSITION							
Members' contributed capital	-	1,170,449	-	280,000	1,450,449	(1,450,449)	-
Net investment in capital assets	63,951,091	330,479	-	-	64,281,570	-	64,281,570
Restricted, expendable for:							
Workers' compensation collateral	27,217	-	-	-	27,217	-	27,217
Specific operating activities	98,715	-	1,132,822	-	1,231,537	-	1,231,537
Restricted, nonexpendable for minority interests	-	-	-	-	-	703,604	703,604
Unrestricted	61,238,993	935,010	3,190,570	(348,184)	65,016,389	(461,451)	64,554,938
Total net position	125,316,016	2,435,938	4,323,392	(68,184)	132,007,162	(1,208,296)	130,798,866
Total liabilities, deferred inflows of resources and net position	$ 473,861,291	$ 4,242,532	$ 4,378,732	$ 13,422	$ 482,495,977	$ (1,365,682)	$ 481,130,295

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

	AVHD	AVOIC	AVHF	DHSDC	Total	Eliminations	Total
OPERATING REVENUES							
Net patient service revenue	$ 420,440,471	$ 17,147,192	$ -	$ -	$ 437,587,663	$ -	$ 437,587,663
Other revenue	19,665,421	36,263	-	-	19,701,684	(699,613)	19,002,071
Total operating revenue	440,105,892	17,183,455	-	-	457,289,347	(699,613)	456,589,734
OPERATING EXPENSES							
Salaries and wages	173,263,013	4,529,235	91,650	-	177,883,898	-	177,883,898
Employee benefits	60,835,014	720,579	85	-	61,555,678	-	61,555,678
Professional and medical fees	42,016,432	7,505,766	-	-	49,522,198	-	49,522,198
Purchased services	26,744,312	-	3,360	-	26,747,672	-	26,747,672
Supplies	65,032,856	995,649	1,108	-	66,029,613	-	66,029,613
Other expenses	31,144,641	2,427,231	201,695	-	33,773,567	(231,599)	33,541,968
Depreciation and amortization	14,617,566	292,526	-	-	14,910,092	-	14,910,092
Total operating expenses	413,653,834	16,470,986	297,898	-	430,422,718	(231,599)	430,191,119
OPERATING INCOME (LOSS)	26,452,058	712,469	(297,898)	-	26,866,629	(468,014)	26,398,615
NONOPERATING REVENUES (EXPENSES)							
Grant revenue and contributions	3,393,984	-	42,446	-	3,436,430	451,935	3,888,365
Investment income	2,194,008	-	-	-	2,194,008	-	2,194,008
Dividend to parents	-	(500,000)	-	-	(500,000)	350,000	(150,000)
Interest expense	(6,741,316)	(42,188)	1,105	-	(6,782,399)	-	(6,782,399)
Total nonoperating revenues (expenses), net	(1,153,324)	(542,188)	43,551	-	(1,651,961)	801,935	(850,026)
Income (loss) before capital contributions	25,298,734	170,281	(254,347)	-	25,214,668	333,921	25,548,589
CAPITAL CONTRIBUTIONS	451,935	-	-	-	451,935	(451,935)	-
Change in net position	25,750,669	170,281	(254,347)	-	25,666,603	(118,014)	25,548,589
NET POSITION, beginning of year	99,565,347	2,265,657	4,577,739	(68,184)	106,340,559	(1,090,282)	105,250,277
NET POSITION, end of year	$ 125,316,016	$ 2,435,938	$ 4,323,392	$ (68,184)	$ 132,007,162	$ (1,208,296)	$ 130,798,866

See accompanying report of independent auditors.