REPORT OF INDEPENDENT AUDITORS
IN ACCORDANCE WITH THE UNIFORM GUIDANCE
AND CONSOLIDATED FINANCIAL STATEMENTS
WITH REQUIRED SUPPLEMENTARY INFORMATION
AND OTHER SUPPLEMENTARY INFORMATION

FOR

ANTELOPE VALLEY HEALTHCARE DISTRICT

June 30, 2017 and 2016

MOSSADAMS.COM

Table of Contents

MOSSADAMS

Report of Independent Auditors

The Board of Directors
Antelope Valley Healthcare District

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Antelope Valley Healthcare District (the "District") as of and for the years ended June 30, 2017 and 2016, and the related notes to the consolidated financial statements, which collectively comprise the District's basic consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Antelope Valley Healthcare District as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 11 and the schedule of changes in the net pension liability and related ratios and schedule of contributions for the defined benefit pension plan, on pages 51 through 52, be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise Antelope Valley Healthcare District's basic consolidated financial statements. The schedule of expenditures of federal awards on page 63 as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the consolidating schedules on pages 53 through 58 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements.

The schedule of expenditures of federal awards and consolidating 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 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated 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 consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and consolidating schedules are fairly stated, in all material respects, in relation to the basic consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2017 on our consideration of Antelope Valley Healthcare District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Antelope Valley Healthcare District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Antelope Valley Healthcare District's internal control over financial reporting and compliance.

Moss Adams LLP

Los Angeles, California
November 21, 2017

This section of Antelope Valley Healthcare District's (the District) financial statements presents management's discussion and analysis of the financial activities of the District for the fiscal years ended June 30, 2017, 2016, and 2015. 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 consolidated financial statements. This annual report is prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The required financial statements include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. Notes to the financial statements, supplementary detail and/or statistical information, and this summary support these statements. All sections must be considered together to obtain a complete understanding of the financial picture of the District.

Statement of Net Position

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

Statement of Revenues, Expenses, and Changes in Net Position

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

Statement of Cash Flow

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

Notes to the Financial Statements

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

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

The District's Net Position

The District's net position represents the difference between its assets and 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 $31,587 or 42.9% in 2017 over 2016 and increased by $2,339 or 3.3% in 2016 over 2015 as shown in Table 1. In 2016, the District adopted GASB No. 68 and recognized a cumulative effect of change in accounting principle of $51,634 that increased the net pension liability and reduced the net position. Offsetting this decrease was an increase in net position of $6,916. In 2017, net position increased an additional $31,587.

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

	2017	2016	2015
ASSETS			
Patient accounts receivable, net	$ 56,770,000	$ 56,510,000	$ 51,120,000
Other current assets	101,412	90,554	74,982
Capital assets, net	161,584	163,201	174,403
Other noncurrent assets	113,634	66,357	69,155
Total assets	433,400	376,622	369,660
DEFERRED OUTFLOWS OF RESOURCES	25,082	25,152	4,025
Total assets and deferred outflows of resources	$ 458,482,000	$ 401,774,000	$ 373,685,000
LIABILITIES			
Long-term debt (including current portion)	$ 151,365,000	$ 132,847,000	$ 123,455,000
Other current and noncurrent liabilities	198,795	191,132	178,906
Total liabilities	350,160	323,979	302,361
DEFERRED INFLOWS OF RESOURCES	3,072	4,131	-
NET POSITION			
Net investment in capital assets	47,460	52,869	64,683
Restricted, expendable	1,318	201	718
Restricted, nonexpendable	653	522	459
Unrestricted	55,819	20,072	5,464
Total net position	105,250	73,664	71,324
Total liabilities, deferred inflows of resources and net position	$ 458,482,000	$ 401,774,000	$ 373,685,000

The District's Net Position (continued)
The following is an explanation of the significant changes between fiscal years as show in Table 1:

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

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

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

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

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

Changes from fiscal 2015 to 2016
Patient accounts receivable, net increased $5,390 or 10.5% from 2015 to 2016 mainly due to a shift in payor mix and slower payments from certain commercial payors. Within the change in payor mix, the District experienced an increase in patients qualifying for governmental programs in 2016 as compared to 2015 and a shift from traditional Medi-Cal to managed Medi-Cal plans. Charity care write-offs totaled $9,135 in 2016, a decrease of 10.9% from 2015.

Other current assets increased $15,572 or 20.8% from 2015 to 2016 due to: 1) an increase in cash of $12,885 mainly due to improved patient related collections, and 2) an increase of $3,344 of estimated amounts due from third-party payor settlements due primarily to the District's qualification for participation in the Public Hospital Redesign and Incentives in Medi-Cal (PRIME) Program.

Capital assets, net decreased $11,202 or 6.4% from 2015 to 2016. Purchases of new equipment and the continuation of certain capital projects in the current year amounted to $9,125 which was offset by depreciation and amortization expense of $15,068 and an impairment write-down of $5,175 due to abandoned projects.

Other noncurrent assets decreased $2,798 or 4.0% from 2015 to 2016 due to the restructuring of bond debt.

Deferred outflows of resources increased $21,127 or 524.9% due to deferred charges related to the advanced refunding of certain debt in 2016 of $4,634 and the net difference between expected and actual earnings on pension plan investments in 2016 of $16,494.

Operating Results and Changes in the District's Net Position

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

	2017	2016	2015
OPERATING REVENUE			
Net patient service revenue	$ 446,025	$ 403,129	$ 394,261
Other	10,822	7,783	7,375
Total operating revenues	456,847	410,912	401,636
OPERATING EXPENSES			
Salaries and wages and employee benefits	223,817	230,341	224,548
Purchased services and professional fees	80,084	60,141	51,775
Other operating expenses	103,715	98,857	102,772
Depreciation and amortization	14,341	15,068	14,503
Total operating expenses	421,957	404,407	393,598
OPERATING INCOME	34,890	6,505	8,038
NONOPERATING REVENUES (EXPENSES)			
Grant revenue and contributions	3,809	3,560	3,690
Investment income	1,031	1,425	986
Bond issuance costs	(36)	(2,421)	-
Interest expense	(8,107)	(6,730)	(5,798)
Total nonoperating expenses, net	(3,303)	(4,166)	(1,122)
Change in net position	$ 31,587	$ 2,339	$ 6,916

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

The first component of the overall change in the District's net position is its operating income that is generally the result of the difference between net patient service revenue and other operating revenues and the expenses incurred to perform those services. Operating income increased by $28,385 or 436.4% in 2017 as compared to 2016 and decreased by $1,533 or 19.1% in 2016 as compared to 2015. The primary components of the changes in operating income are as follows:

Changes from fiscal 2016 to 2017

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

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

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

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

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

Changes from fiscal 2015 to 2016

Net patient service revenue for the District increased by $8,868 or 2.2% in 2016 compared to 2015. The District reported a net decrease in adjusted patient days of 4.4% from 2016 compared to 2015, yet realized an 8.4% increase in net patient service revenue per adjusted patient day as a result of price increases which became effective in October 2015. Additionally, the District recognized revenue from various supplemental funding sources including the IGT Program, Disproportionate Share funding, and the Hospital Fee Program totaling $40,208 and $44,639 in 2016 and 2015, respectively.

Operating Revenue, Other for the District increased by $408 or 5.5% in 2016 compared to 2015. In 2016, the District received $948 to support the electronic medical record investment via Medicare Meaningful Use payment and $2,982 for the PRIME program. In 2015, the District received $3,292 via both Medicare and Medi-Cal Meaningful Use payments. The PRIME program was not in effect in 2015.

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

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

The District's Cash Flows

Net cash provided by operating activities increased $35,785 or 172.0% from 2016 to 2017 mainly due to the receipt of various supplemental funding and a decrease in salary costs, offset by decrease for additional funding paid to the Pension Plan. In 2016, net cash provided by operating activities decreased $9,181 mainly due to additional funding to the Pension Plan and increased salary costs. In 2015, net cash provided by operating activities increased $13,745 mainly due to an increase in patient related collections, the receipt of Intergovernmental Transfer (IGT) funds, and third party payor settlements.

Capital Asset and Debt Administration Capital Assets

At the end of 2017, 2016, and 2015, the District had $161,584, $163,201, and $174,403, respectively in capital assets, net of accumulated depreciation, as detailed in Note 6 to the basic consolidated financial statements. The District purchased new equipment which included information technology, surgical equipment and other minor infrastructure projects costing $5,140 in 2017, $4,783 in 2016 and $4,731 in 2015. Also during 2017, 2016, and 2015, the District expended $1,979, $4,570, and $5,863, respectively, on buildings and leasehold improvements.

Debt

The District had $151,365, $132,847, and $123,455 in outstanding debt at June 30, 2017, 2016, and 2015, respectively, comprised of revenue bonds, notes payable and capital lease obligations as detailed in Note 8 to the basic consolidated financial statements. The District's formal debt issuances are subject to limitations imposed by state law. In February 2017, Moody's assigned the District's Series 2016A, Ba3 with an outlook of negative.

Economic Factors on the Fiscal Year 2017 Budget and Beyond

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

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

On the State level, the Affordable Care Act (ACA) has significantly increased the coverage for the Medi-Cal population which in turn has reduced the amount of uncompensated/self-pay care for hospitals across the state including the District. Medi-Cal eligibility has expanded to include all individuals and families with incomes up to 138% of the poverty level. As a result of the expanded coverage, Medi-Cal beneficiaries now make up nearly a third of California's 38-million population. Greater use of Medi-Cal managed care is likely to continue with the goals of improved quality and increased savings through reduced use of hospital services. In order to address the needs of the growing Medi-Cal population, the District is participating in the PRIME program which focuses on addressing the overall needs of Medi-Cal beneficiaries and care coordination for at-risk populations. Contingent upon meeting the requirements of the project, the District is eligible for incentive payments throughout the implementation of the 5-year project plan.

At this time, it is still unknown what the impact of proposed legislation and presidential executive orders will have on the healthcare industry and the ACA.

Despite some of the challenges the hospital is facing from government payors, the District has been focused on appropriate reimbursement in contracting and is actively negotiating its insurance contracts to ensure that it maintains competitive reimbursement rates over the coming years. Kaiser Permanente extended their short-term agreement to a ten-year agreement which solidifies a long-term relationship and provides stability and financial sustainability that can be modelled. The hospital has also been focused on ensuring that it is able to maximize the amount of supplemental funding that it qualifies for, such as the LA County Measure B trauma center funds which resulted in increased funding this year. Furthermore, the District is actively engaged in service line analysis and program development to identify opportunities for growth in profitable services, as well as evaluating unprofitable services for cost improvements, better process efficiencies, and/or elimination of services if need be. The District has had a history of rapid turnover in the C-suite that has made it very challenging to create programs and services. The way in which current and future District Boards solve this issue is a huge critical success factor for the hospital.

Economic Factors on the Fiscal Year 2017 Budget and Beyond (continued)
The District will be committing significant capital expenditures in the coming years on projects such as the new Electronic Medical Records system and improvements in Internet Technology. The hospital is faced with seismic non-compliance in 2030 that must be dealt with in the next few years which has the potential for significant capital requirements. The hospital will also continue to invest in routine capital improvements and equipment as needs arise. In order to move forward on these projects, the hospital will have continued focus on ways to improve top-line revenue growth, reduce expenses and maintain fiscal discipline.

Changes to Board Governance
On November 7, 2017 the voters of Antelope Valley approved Measure H which will create a separate 501(c)(3) nonprofit entity governed by a 9-member Board comprised of the 5 elected District board members, three community members, and the Chief Executive Officer. The structure of the Board is designed to limit the majority of the board seats up for reelection or reappointment in any given year, thereby creating consistency among the Board and C-suite, and the opportunity to focus on long term strategic plans, sustainable financial performance, and improved quality. Expanding the Board is also consistent with previous recommendations to the Board by the Department of Housing and Urban Development and rating agencies. Historically, instability in the C-suite has led to the turnover of four Chief Executive Officers in the last four years. The nonprofit entity will operate the hospital through a transfer services agreement and have financial reporting responsibility to the District.

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

	June 30, 2017	June 30, 2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	$ 56,773,409	$ 18,653,687
Short-term investments	26,126,905	52,929,399
Restricted cash and investments, current	2,127,009	1,894,596
Patient accounts receivable, net of estimated uncollectible accounts of $32,507,751 in 2017 and $22,857,326 in 2016	56,770,154	56,510,329
Other receivables, net of estimated uncollectible accounts of $862,177 in 2017 and $818,581 in 2016	1,996,892	2,269,516
Supplies inventory	5,643,412	5,704,179
Prepaid expenses and other current assets	2,704,702	2,315,491
Estimated third-party payor settlements	6,040,294	6,787,283
Total current assets	158,182,777	147,064,480
NONCURRENT CASH AND INVESTMENTS		
Held by trustee	34,733,094	17,881,445
Less amounts required to meet current obligations	2,089,896	1,857,483
	32,643,198	16,023,962
Other long-term investments	76,590,199	50,223,139
Total noncurrent cash and investments	109,233,397	66,247,101
CAPITAL ASSETS, net	161,584,064	163,200,617
OTHER ASSETS	4,400,245	109,976
Total noncurrent assets	275,217,706	229,557,694
Total assets	433,400,483	376,622,174
DEFERRED OUTFLOWS OF RESOURCES		
Net difference between expected and actual earnings on pension plan investments (note 10)	22,574,218	20,518,297
Deferred loss on debt defeasance (note 8)	2,507,962	4,633,772
Total deferred outflows of resources	25,082,180	25,152,069
Total assets and deferred outflows of resources	$ 458,482,663	$ 401,774,243

(Continued)

Antelope Valley Healthcare District
Consolidated Statements of Net Position (continued)

	June 30, 2017	June 30, 2016
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 20,266,588	$ 18,270,111
Accrued payroll and related expenses	14,289,848	15,229,746
Current maturities of long-term debt	6,093,605	2,298,989
Accrued self-insurance liabilities, current portion	7,662,402	7,698,318
Accrued interest payable	2,089,896	1,857,483
Total current liabilities	50,402,339	45,354,647
LONG-TERM DEBT, net of current portion	145,271,153	130,547,806
ACCRUED SELF-INSURANCE LIABILITIES, net of current portion	14,857,598	14,889,092
PENSION AND OPEB LIABILITIES	139,629,399	133,187,804
Total liabilities	350,160,489	323,979,349
DEFERRED INFLOWS OF RESOURCES		
Differences between actual and expected pension experience (note 10)	3,071,897	4,131,172
NET POSITION		
Net investment in capital assets	47,460,362	52,869,039
Restricted, expendable for:		
Workers' compensation collateral	37,113	37,113
Specific operating activities	1,281,026	164,202
Restricted, non-expendable for minority interests	652,520	521,594
Unrestricted	55,819,256	20,071,774
Total net position	105,250,277	73,663,722
Total liabilities, deferred inflows of resources and net position	$ 458,482,663	$ 401,774,243

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

	Years Ended June 30,	
	2017	2016
OPERATING REVENUES		
Net patient service revenue, net of provision for uncollectible accounts of $26,794,496 in 2017 and $20,577,461 in 2016	$ 446,025,100	$ 403,128,539
Other revenue	10,822,243	7,783,374
Total operating revenues	456,847,343	410,911,913
OPERATING EXPENSES		
Salaries and wages	167,798,591	172,259,404
Employee benefits	56,018,775	58,082,020
Professional and medical fees	51,064,805	29,591,126
Purchased services	29,019,338	30,549,374
Supplies and other expenses	103,714,331	98,856,971
Depreciation and amortization	14,341,486	15,068,425
Total operating expenses	421,957,326	404,407,320
OPERATING INCOME	34,890,017	6,504,593
NONOPERATING REVENUES (EXPENSES)		
Grant revenue and contributions	3,809,181	3,560,008
Investment income	1,030,791	1,424,828
Bond issuance costs	(36,000)	(2,420,567)
Interest expense	(8,107,434)	(6,729,552)
Total nonoperating expenses, net	(3,303,462)	(4,165,283)
Change in net position	31,586,555	2,339,310
NET POSITION, Beginning of year	73,663,722	71,324,412
NET POSITION, End of year	$ 105,250,277	$ 73,663,722

Antelope Valley Healthcare District
Consolidated Statements of Cash Flows

	Years Ended June 30, 2017	Years Ended June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	$ 446,545,335	$ 400,375,079
Payments to suppliers and contractors	(184,749,054)	(151,217,119)
Payments to employees	(216,301,893)	(233,716,821)
Other receipts and payments, net	11,094,867	5,362,720
Net cash provided by operating activities	56,589,255	20,803,859
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from grants and contributions	3,776,110	3,544,163
Net cash provided by noncapital financing activities	3,776,110	3,544,163
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(14,906,497)	(9,125,455)
Proceeds from issuance of long-term debt, including premium	21,000,000	131,611,550
Principal repayments on long-term debt	(2,298,989)	(6,550,197)
Deposit to escrow account for advance refunding	(2,507,962)	(121,257,206)
Interest payments on long-term debt	(8,074,771)	(6,514,029)
Debt issuance costs paid	(36,000)	(2,420,567)
Net cash used in capital and related financing activities	(6,824,219)	(14,255,904)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(26,470,893)	(39,245,866)
Proceeds from sale of investments	10,054,678	34,171,953
Interest and dividends received on investments	1,030,791	1,216,713
Net cash used in investing activities	(15,385,424)	(3,857,200)
NET INCREASE IN CASH AND CASH EQUIVALENTS	38,155,722	6,234,918
CASH AND CASH EQUIVALENTS, Beginning of year	18,653,687	12,418,769
CASH AND CASH EQUIVALENTS, End of year	$ 56,809,409	$ 18,653,687

(Continued)

See accompanying notes of independent auditors.

	Years Ended June 30, 2017	2016
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 34,890,017	$6,712,708
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for bad debts	26,794,496	20,577,461
Depreciation and amortization	14,341,486	15,068,425
Loss on disposal of assets	441,835	313,867
Loss on impairment of assets	1,792,431	5,174,550
Changes in assets and liabilities:		
Patient accounts receivable, net	(27,021,250)	(25,952,039)
Other receivables, net	272,624	353,666
Supplies inventory and prepaid expenses and other current assets	(328,444)	303,386
Estimated third-party payor settlements	746,989	(3,343,882)
Other assets	(4,290,269)	1,221,411
Deferred outflows and inflows of resources	1,518,576	(12,362,385)
Accounts payable and accrued liabilities	1,996,477	3,147,117
Accrued payroll and related expenses	(939,898)	(4,157,584)
Accrued self-insurance liabilities	(67,410)	912,199
Pension and OPEB liabilities	6,441,595	12,834,959
Net cash provided by operating activities	$ 56,589,255	$ 20,803,859
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Capital assets acquired through capital leases	$ -	$ 305,900

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.

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

- The Antelope Valley Outpatient Imaging Center, LLC (AVOIC) is a legally separate entity that operates two diagnostic imaging centers located in Lancaster, California and Palmdale, California with a December 31-year end. The District owns 70% of AVOIC and can unilaterally make operating decisions such as establishing a budget or issuing debt. The District has determined that AVOIC meets the criteria of a blended component unit under GASB Statement No. 61 as the governing bodies are substantially the same and because the operations are managed by the District similar to other hospital departments.
- The Gift Foundation of the Antelope Valley Health Care District d/b/a Antelope Valley Hospital Foundation (AVHF) is a 501(c)(3) tax exempt organization and is legally separate from the District and operates with a June 30 fiscal year end. Although the District does not appoint a voting majority of the AVHF's Board of Directors nor is the District financially accountable for AVHF, the District has determined that AVHF meets the criteria of a blended component unit in accordance with GASB Statement No. 61 as the economic resources earned and held by AVHF have historically been used for the direct benefit of the District.
- The Desert Hills Sleep Disorder Center, LLC (DHSDC) is a legally separate entity operating a sleep diagnostic facility in Lancaster, California. The District owns 60% of the DHSDC and can unilaterally make operating decisions such as establishing a budget or issuing debt. The District has determined that DHSDC meets the criteria of a blended component unit under GASB 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. DHSDC ceased operations during the fiscal year ended June 30, 2016 and all operating equipment was sold or disposed.

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

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

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

Condensed Statements of Net Position
As of June 30, 2017

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

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

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

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

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

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

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

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

Condensed component unit information for each of the District's blended component units for the year ended June 30, 2016 is as follows:

Condensed Statements of Net Position
As of June 30, 2016

	AVOIC	AVHF	DHSDC
ASSETS			
Patient accounts receivable, net	$ 2,421,825	$ -	$ -
Other current assets	574,770	4,168,594	14,177
Capital assets, net	584,651	-	-
Total assets	$ 3,581,246	$ 4,168,594	$ 14,177
LIABILITIES			
Due to the District	$ -	$ 46,443	$ 81,607
Other current liabilities	1,556,148	-	-
Long-term liabilities	196,529	-	-
Total liabilities	1,752,677	46,443	81,607
NET POSITION			
Net investment in capital assets	253,862	-	-
Restricted, nonexpendable	1,000,000	-	280,000
Unrestricted	574,707	4,122,151	(347,430)
Total net position	1,828,569	4,122,151	(67,430)
Total liabilities and net position	$ 3,581,246	$ 4,168,594	$ 14,177

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, 2016

	AVOIC	AVHF	DHSDC
OPERATING REVENUE			
Net patient service revenue	$ 15,317,708	$ -	$ -
Other	17,385	-	-
Total operating revenues	15,335,093	-	-
OPERATING EXPENSES			
Salaries, wages and employee benefits	4,457,903	77,025	-
Purchased services and professional fees	6,702,822	3,900	798
Other operating expenses	3,177,766	138,242	170
Depreciation and amortization	763,117	-	-
Total operating expenses	15,101,608	219,167	968
OPERATING LOSS	233,485	(219,167)	(968)
NONOPERATING REVENUES (EXPENSES)			
Grant revenue and contributions	-	5,578	-
Investment income	-	56,876	-
Interest expense	(23,563)	-	-
Total nonoperating revenues (expenses), net	(23,563)	62,454	-
Change in net position	209,922	(156,713)	(968)
Beginning net position	1,618,647	4,278,864	(66,462)
Ending net position	$ 1,828,569	$ 4,122,151	$ (67,430)

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

Condensed Statements of Cash Flows
For the Year Ended June 30, 2016

	AVOIC	AVHF	DHSDC
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from and on behalf of patients	$ 15,180,094	$ -	$ -
Payments to suppliers and contractors	(10,058,713)	(160,518)	(950)
Payments to employees	(4,377,289)	(77,025)	-
Other receipts and payments, net	17,385	1,064,875	-
Net cash provided by (used in) operating activities	761,477	827,332	(950)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(137,944)	-	-
Principal repayments on long-term debt	(535,345)	-	-
Interest payments on long-term debt	(23,563)	-	-
Net cash used in capital and related financing activities	(696,852)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received on investments	-	-	-
Net cash provided by investing activities	-	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	64,625	827,332	(950)
CASH AND CASH EQUIVALENTS, Beginning of year	325,292	3,341,263	15,126
CASH AND CASH EQUIVALENTS, End of year	$ 389,917	$ 4,168,595	$ 14,176

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 consolidated financial statements. The District's ongoing financial interest was approximately $4,290,000 as of June 30, 2017 and is included within other assets in the consolidated statements of net position. Separate financial statements of the joint venture are not available to the public.

Note 2 – Summary of Significant Accounting Policies

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

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

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

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

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

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

Note 2 – Summary of Significant Accounting Policies (continued)

Cash and cash equivalents – The District considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents consisted primarily of money market accounts with brokers at June 30, 2017 and 2016.

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

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

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

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

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

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

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

Note 2 – Summary of Significant Accounting Policies (continued)

The District capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowings. Total interest capitalized and incurred during fiscal years ended June 30, 2017 and 2016 was as follows:

	2017	2016
Interest capitalized	$ 52,702	$ 83,419
Interest charged to expense	8,107,434	6,729,552
Total interest incurred	$ 8,160,136	$ 6,812,971

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is dependent upon the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the statements of revenues, expenses, and changes in net position. The District recognized an impairment loss of approximately $1,792,000 and $5,175,000 during the years ended June 30, 2017 and 2016, respectively, related to the abandonment of certain capital projects.

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 Plans' 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.

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and workers' compensation claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Note 2 – Summary of Significant Accounting Policies (continued)

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 year ended June 30, 2017, the District increased its estimated amounts due from third-party payors and increased net patient service revenue by approximately $3,300,000 due to changes in accounting estimates related to prior periods. During the year ended June 30, 2016, 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 year ended June 30, 2017, the District increased its net patient service revenue by approximately $2,200,000 due to changes in accounting estimates related to prior periods. During the year ended June 30, 2016, the District increased its net patient service revenue by approximately $1,300,000 due to changes in accounting estimates related to prior periods.

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

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

Grant and contribution income – During 2017 and 2016, the District received approximately $2,952,000 and $3,029,000, 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 2017 and 2016 the District received approximately $857,000 and $531,000, 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.

Note 2 – Summary of Significant Accounting Policies (continued)

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

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

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

Adoption of accounting pronouncements in current year – During the year ended June 30, 2017, the District adopted GASB Statement No. 80, *Blending Requirements for Certain Component* which states the component unit should be included in the reporting entity financial statements using the blending method if the component unit is organized as a not-for-profit corporation in which the reporting entity is the sole corporate member, as identified in the component unit's articles of incorporation or bylaws, and the component unit is included in the reporting entity pursuant to the provisions in paragraphs 21−37 of Statement 14, as amended. There was no material impact on the District's consolidated financial statements as a result of the implementation of GASB Statement No. 80.

Future Governmental Accounting Standards Board Statements – In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. GASB 83 intends to enhance the comparability of financial statements by establishing uniform criteria to recognize and measure certain asset retirement obligations, including obligations that may not have been previously reported. The District is currently assessing the impact of this standard on the District's consolidated financial statements.

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, 2014.

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 72% and 66% of net patient service revenue is from participation in the Medicare and state-sponsored Medi-Cal programs for the years ended June 30, 2017 and 2016, 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:

	2017	2016
Cash on hand	$ 3,925	$ 3,925
Deposits	91,260,280	33,985,229
Investments	102,996,515	105,735,629
Total cash and investments	$ 194,260,720	$ 139,724,783

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

	2017	2016
Cash and cash equivalents	$ 56,773,409	$ 18,653,687
Short-term investments	26,126,905	52,929,399
Restricted cash and investments, current	2,127,009	1,894,596
Noncurrent cash and investments	109,233,397	66,247,101
Total cash and investments	$ 194,260,720	$ 139,724,783

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)

At June 30, 2017 and 2016 approximately $1,318,000 and $15,631,000 of the District's bank balances respectively, were insured for the first $250,000 or covered by collateral held in the pledging bank's trust department in the name of the District. These amounts exclude deposits held by the District's blended component units with carrying values of approximately $5,674,000 and $4,573,000 at June 30, 2017 and 2016, 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 $4,431,000 and $3,330,000 at June 30, 2017 and 2016, 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 consolidated statements of net position at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis and therefore is excluded from the fair value hierarchy.

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

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

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, 2016:

		Fair Value Measurements		
	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. instrumentalities	$ 28,316,131	$ -	$ 28,316,131	$ -
Corporate bonds	18,853,896	-	18,853,896	-
U.S. Treasury	17,756,184	-	17,756,184	-
Held by trustee:				
Corporate bonds	2,597,288	-	2,597,288	-
	67,523,499	$ -	$ 67,523,499	$ -
Investments not subject to the fair value hierarchy:				
State investment pool - LAIF	38,212,130			
Total investments	$ 105,735,629			

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

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

The District had the following investments and maturities at June 30, 2016:

		Investment Maturities (In Years)		
Investment Type	Fair Value	Less Than 1	1-5	More Than 5
External investment pool - LAIF	$ 38,212,130	$ 38,212,130	$ -	$ -
U.S. instrumentalities	28,316,131	2,008,316	26,307,815	-
Corporate bonds	18,853,896	8,661,050	10,192,846	-
U.S. Treasury	17,756,184	3,757,404	13,998,780	-
Held by trustee:				
Corporate bonds	2,597,288	1,939,927	657,361	-
	$ 105,735,629	$ 54,578,827	$ 51,156,802	$ -

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

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

Credit risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy generally limits its investments to a credit rating of A or the equivalent by a nationally recognized statistical rating organization. The District's investments not directly guaranteed by the U.S. government were rated as follows at June 30, 2017 and 2016:

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

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the District's investments as disclosed in the table above at June 30, 2017 and 2016 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 slaw.

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 at June 30:

	2017		2016	
Investment Type	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
Federal Farm Credit Banks	$ -	n/a	$ 8,408,851	8%
Federal Home Loan Bank	8,559,838	8%	7,958,792	8%
Federal National Mortgage Association	8,138,069	8%	7,929,961	8%
Federal National Mortgage Association Pool	7,913,184	8%	-	n/a

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

	2017	2016
Interest, dividends and realized gains on sales of investments	$ 1,049,973	$ 1,197,645
Net (decrease) / increase in fair value of investments	(19,182)	227,183
	$ 1,030,791	$ 1,424,828

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

Note 5 – Patient Accounts Receivable

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

	2017	2016
Medicare	25 %	26 %
Medi-Cal	47	40
Other third-party and commercial payor	22	27
Self pay	6	7
Total	100 %	100 %

Note 6 – Capital Assets

Capital assets activity for the years ended June 30, 2017 was as follows:

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

Construction commitments for various construction projects approximate $7,532,000 as of June 30, 2017.

Note 6 – Capital Assets (continued)

Capital assets activity for the years ended June 30, 2016 was as follows:

	Beginning Balance June 30, 2015	Additions	Deletions	Transfers	Ending Balance June 30, 2016
Land	$ 9,869,241	$ -	$ -	$ -	$ 9,869,241
Land improvements	23,718,622	28,205	-	178,640	23,925,467
Buildings and leasehold improvements	174,284,008	323,774	-	57,123	174,664,905
Equipment	188,295,535	4,783,402	(771,488)	84,707	192,392,156
Construction in progress	6,561,015	4,218,614	(5,476,932)	(320,470)	4,982,227
	402,728,421	9,353,995	(6,248,420)	-	405,833,996
Less accumulated depreciation:					
Land improvements	10,332,356	928,483	-	-	11,260,839
Buildings and leasehold improvements	68,371,303	4,425,912	-	-	72,797,215
Equipment	149,621,298	9,714,030	(760,003)	-	158,575,325
	228,324,957	15,068,425	(760,003)	-	242,633,379
	$ 174,403,464	$ (5,714,430)	$ (5,488,417)	$ -	$ 163,200,617

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. These unpaid claim liabilities were discounted at 1.56% and 1.68% in 2017 and in 2016, respectively, to account for the time value of money to determine the current estimated liabilities as reflected below. It is reasonably possible that the District's estimate of losses will change by a material amount in the near term. Activity in the District's accrued workers' compensation claims liability during 2017 and 2016 is summarized as follows:

	2017	2016
Balance, beginning of the year	$ 13,092,999	$ 12,554,000
Current year claims incurred and changes in estimates for claims incurred in the prior year	4,798,813	4,046,703
Claims and expenses paid	(4,883,812)	(3,507,704)
Balance, end of year	$ 13,008,000	$ 13,092,999

Note 7 – Self-Insurance Liabilities (continued)

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 year by estimating the probable ultimate costs of the incidents. Annual estimated provisions are accrued based on the District's past experience as well as other considerations, including the nature of the claim or incident and relevant trend factors. Losses from asserted and unasserted claims identified under the District's incident reporting system are actuarially determined based on the District's past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. These unpaid claim liabilities were discounted at 1.56% and 1.70% in 2017 and in 2016, respectively, to account for the time value of money to determine the current estimated liabilities as reflected below. It is reasonably possible that this estimate could change materially in the near term.

Activity in the District's accrued medical malpractice claims liability during 2017 and 2016 is summarized as follows:

	2017	2016
Balance, beginning of the year	$ 7,522,000	$ 7,644,000
Current year claims incurred and changes in estimates for claims incurred in the prior years	1,560,064	1,089,904
Claims and expenses paid	(1,170,064)	(1,211,904)
Balance, end of year	$ 7,912,000	$ 7,522,000

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 $1,600,000 and $1,972,000 at June 30, 2017 and 2016, respectively, and are included in accrued self-insurance liabilities on the consolidated 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 for the years ended June 30:

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

	2016				
	Beginning Balance	Additions	Payments	Ending Balance	Due Within 1 Year
Series 2016A District Revenue Bonds (A)	$ -	$126,120,000	$ -	$ 126,120,000	$ 1,815,000
Series 2002A District Revenue Bonds (B)	55,000,000	-	(55,000,000)	-	-
Series 1997A District Insured Refunding Revenue Bonds (B)	16,795,000	-	(16,795,000)	-	-
Series 1997B District Insured Revenue Bonds (B)	11,955,000	-	(11,955,000)	-	-
Series 2010A Fixed Rate Revenue Bonds (B)	19,800,126	-	(19,800,126)	-	-
Series 2011A Fixed Rate Revenue Bonds (B)	17,525,000	-	(17,525,000)	-	-
Capital lease obligations	2,380,264	305,900	(1,389,902)	1,296,262	483,989
Unamortized bond premium	-	5,491,550	(61,017)	5,430,533	-
Total long-term debt	$ 123,455,390	$ 131,917,450	$ (122,526,045)	$ 132,846,795	$ 2,298,989

A. Series 2016 District revenue bonds – Due March 1, 2046, principal payable annually beginning March 1, 2017 plus semiannual interest payments at interest rates from 5.00% to 5.25%, 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 bonds were issued at a premium totaling $5,492,000 which is being amortized over the life of the bonds. The District recognized approximately $183,000 and $61,000 of amortization related to the bond premium during the years ended June 30, 2017 and 2016, respectively.

B. Defeasance of debt – On March 1, 2016, these bonds were advance refunded and defeased. Proceeds in the amount of $121,486,000 were placed in an irrevocable trust to provide for future debt service payments on the Series 1997A, Series 1997B, Series 2002A, Series 2010A, and Series 2011A bonds ("defeased bonds"). Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's consolidated financial statements. As of June 30, 2016, $17,225,000 of outstanding bonds are considered legally defeased. The remaining defeased bonds were redeemed by the trustee during the year ended June 30, 2016.

Note 8 – Long-Term Obligations (continued)

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 consolidated statements of net position and is amortized over the shorter of the life of the old bonds or the new bonds. During the years ended June 30, 2017 and 2016, the District amortized approximately $2,508,000 and $709,000, respectively related to the deferred outflows of resources, which is included in interest expense on the consolidated statements of revenues, expenses and changes in net position.

The bond service requirements as of June 30, 2017, are as follows:

Years Ending June 30	Total to be Paid or Amortized	Principal	Interest
2018	$ 8,249,688	$ 1,980,000	$ 6,269,688
2019	8,250,688	2,080,000	6,170,688
2020	8,251,688	2,185,000	6,066,688
2021	8,252,438	2,295,000	5,957,438
2022	8,252,688	2,410,000	5,842,688
2023 - 2027	41,251,938	13,970,000	27,281,938
2028 - 2032	41,247,688	17,825,000	23,422,688
2033 - 2037	41,249,175	22,920,000	18,329,175
2038 - 2042	41,249,500	29,390,000	11,859,500
2043 - 2046	32,995,500	29,250,000	3,745,500
Premium	5,247,485	5,247,485	-
Total	$ 244,498,476	$ 129,552,485	$ 114,945,991

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 is expected to be placed into service in August 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 begin in July 2017 and the loan matures in July 2022. As of June 30, 2017, the outstanding loan balance was $20,000,000.

Note 8 – Long-Term Obligations (continued)

The annual debt service requirements on the Equipment loan as of June 30, 2017, are as follows:

Years Ending June 30	Total to be Paid	Principal	Interest
2018	$ 4,311,893	$ 3,764,390	$ 547,503
2019	4,311,894	3,878,673	433,221
2020	4,311,894	3,996,425	315,469
2021	4,311,893	4,117,751	194,142
2022	4,311,893	4,242,761	69,132
Total	$ 21,559,467	$ 20,000,000	$ 1,559,467

Revolving loan – Effective December 1, 2016, the District entered into a revolving loan with a borrowing capacity of $30,000,000. The loan bears interest at LIBOR plus the applicable margin as defined below and is secured by the District's accounts receivables. The agreement is subject to certain financial covenants including debt service coverage ratio and liquidity. The loan matures on November 29, 2019, when the remaining loan balance along with interest is due. As of June 30, 2017, the outstanding balance was $1,000,000 and the effective interest rate was 4.24%.

Average aggregate outstanding amount	Applicable margin
$10,000,000 or less	2.50%
More than $10,000,000, but equal to or less than $25,000,000	2.75%
More than $25,000,000	3.00%

This revolving loan agreement was cancelled and paid in full in September 2017.

Capital lease obligations – The District is obligated under leases for equipment that are accounted for as capital leases. The carrying value of assets under capital leases totaled approximately $17,083,000 at June 30, 2017 and 2016, net of accumulated depreciation of approximately $15,189,000 and $14,147,000 at June 30, 2017 and 2016, respectively.

Note 8 – Long-Term Obligations (continued)

The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates of 2.99% to 15.14% together with the present value of the future minimum lease payments as of June 30, 2017:

Years Ending June 30	
2018	$ 358,831
2019	397,798
2020	70,443
2021	3,195
Total minimum lease payments	830,267
Less amount representing interest	17,994
Present value of future minimum lease payments	$ 812,273

Note 9 – Restricted Net Position

At June 30, 2017 and 2016 restricted expendable net position was available for the following purposes:

	2017	2016
Workers' compensation collateral	$ 37,113	$ 37,113
Specific operating activities	1,281,026	164,202
Total restricted expendable net position	$ 1,318,139	$ 201,315

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, 2017 or 2016.

Note 10 – Pension Plans (continued)

Defined benefit pension plan – The Antelope Valley Hospital Medical Center Retirement Plan (Plan) is a single-employer defined benefit pension plan established by the District and administered by the Plan's board of trustees who are appointed by the District's governing body. The 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 at June 30, 2017, are summarized as follows:

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

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

	Valuation Date July 1, 2016 (Fiscal 2017)	Valuation Date July 1, 2015 (Fiscal 2016)
Active members	1,933	1,951
Terminated vested members not yet receiving benefits	1,282	1,246
Retirees and beneficiaries currently receiving benefits	713	655
Non-vested terminations with account balances	41	-
Total participants	3,969	3,852

Note 10 – Pension Plans (continued)

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 2017 and 2016 were determined as part of actuarial valuation on July 1, 2016 and July 1, 2015, respectively, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a 7.00% and 7.25% investment rate of return in 2017 and 2016, respectively, and (b) projected salary increases of up to 7.00% per year in 2017 and 2016.

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, 2016 and 2015 rolled forward to June 30, 2017 and 2016, 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, 2016 and 2015 rolled forward to June 30, 2017 and 2016, 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 at June 30, 2017 included (a) 7.00% investment long-term expected rate of return, net of investment expenses, and (b) projected salary increases of 3.00%. Items (a) and (b) included an inflation component of 2.50%.

Discount rate – The discount rate used to measure the total pension liability for the fiscal year ended June 30, 2017 was 7.00% which decreased from a discount rate of 7.25% used in the valuation for the fiscal year ended June 30, 2016. 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.

Note 10 – Pension Plans (continued)

The long-term expected rates of return for each major investment class in the Plan's portfolio at June 30, 2017 are as follows:

Investment Class	Long-Term Expected Rate of Return
Domestic equity	
U.S. large cap core	9.0%
U.S. mid cap core	10.0%
U.S. small cap core	10.8%
International	
Developed market	9.0%
Emerging market	11.8%
Alternative	
Real estate- private REITS	8.8%
Hedge funds - market neutral	3.5%
Fixed income	
Core fixed income	3.3%
Cash equivalents	2.5%

Note 10 – Pension Plans (continued)

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

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) - (b)**
Changes in Net Pension Liability			
Balances as of June 30, 2015	$ 262,642,709	$ 145,475,880	$ 117,166,829
Changes for the year:			
Service cost	6,707,130	-	6,707,130
Interest on total pension liability	19,660,531	-	19,660,531
Effect of economic/demographic gains or losses	(5,190,447)	-	(5,190,447)
Effect of assumptions changes or inputs	8,835,715	-	8,835,715
Benefit payments	(7,711,728)	(7,711,728)	-
Employer contributions	-	18,711,729	(18,711,729)
Member contributions	-	660,595	(660,595)
Net investment income	-	(1,737,868)	1,737,868
Administrative expenses	-	(47,692)	47,692
Balances as of June 30, 2016	$ 284,943,910	$ 155,350,916	$ 129,592,994
Changes for the year:			
Service cost	$ 7,016,415	$ -	$ 7,016,415
Interest on total pension liability	20,593,745	-	20,593,745
Effect of economic/demographic gains or losses	5,281,052	-	5,281,052
Effect of assumptions changes or inputs	8,609,531	-	8,609,531
Benefit payments	(8,800,937)	(8,800,937)	-
Employer contributions	-	14,741,814	(14,741,814)
Member contributions	-	775,922	(775,922)
Net investment income	-	15,972,545	(15,972,545)
Administrative expenses	-	(25,943)	25,943
Balances as of June 30, 2017	$ 317,643,716	$ 178,014,317	$ 139,629,399

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	$ 363,189,790	$ 317,643,716	$ 279,920,701
Fiduciary net position	178,014,317	178,014,317	178,014,317
District's net pension liability	$ 185,175,473	$ 139,629,399	$ 101,906,384

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 $21,663,000 and $18,776,000 for the years ended June 30, 2017 and 2016, respectively. The District reported deferred outflows of resources and deferred inflows of resources at June 30, 2017 as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between actual and expected experience	$ (3,071,897)	$ 4,203,286
Changes in assumptions or inputs	-	12,081,785
Net differences between projected and actual earnings on plan investments	-	6,289,147
Total	$ (3,071,897)	$ 22,574,218

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

Year Ended June 30	Annual Recognition
2018	$ 6,308,327
2019	6,308,327
2020	5,227,750
2021	1,657,917

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 for the fiscal years ended June 30, 2017 or 2016.

Postretirement health plan – In December 2016, the District amended certain benefit provisions subject to a collective bargaining arrangement with the California Nurses Association (C.N.A.) that eliminated any postretirement health care coverage.

Note 12 – Commitments and Contingencies

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

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

Operating leases – The District leases certain office space under operating lease agreements. Total lease expense, included in supplies and other expenses on the consolidated statements of revenues, expenses, and changes in net positon, amounted to approximately $9,114,000 and $7,393,000 in the fiscal years ended June 30, 2017 and 2016, respectively. The District subleases certain office suites to other businesses in Lancaster, CA. The lease term is for fifty years, expiring on August 31, 2062. The lease calls for monthly payments in the amount of $3,646 adjusted for inflation every five years from the commencement date of the lease.

Note 12 – Commitments and Contingencies (continued)

Minimum future lease payments and sublease rental income offsets on existing non-cancelable leases as of June 30, 2017 are as follows:

	Minimum Future Lease Payments	Sublease Rental Income	Net
2018	$ 5,741,051	$ (43,750)	$ 5,697,301
2019	4,838,923	(43,750)	4,795,173
2020	2,529,211	(43,750)	2,485,461
2021	1,285,231	(43,750)	1,241,481
2022	1,103,336	(43,750)	1,059,586
Thereafter	2,667,250	(1,753,640)	913,610
Total minimum lease payments	$ 18,165,002	$ (1,972,390)	$ 16,192,612

Regulatory matters – The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, governmental health care program requirements and reimbursements for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory action unknown or unasserted at this time.

Note 12 – Commitments and Contingencies (continued)

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated CMS to implement a Recovery Audit Contractor ("RAC") program on a permanent and nationwide basis. The program uses RACs to search for potentially improper Medicare payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts, which have occurred at least one year ago but not longer than three years ago. RAC assessments against the District began in the year ended June 30, 2011. As of June 30, 2017 approximately $70,000 was accrued and for the year ended June 30, 2017 no amount was repaid. As of June 30, 2016, approximately $127,000 was accrued and for the year ended June 30, 2016 approximately $732,000 was repaid.

Electronic Medical Records System – In March 2017, the District entered into a software licensing agreement to replace their existing EMR System. As of June 30, 2017 the EMR system is in the development stage and is scheduled to be placed it into service in August 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 payments as follows for each fiscal year ending June 30:

2018	$ 11,031,534
2019	10,591,217
2020	3,715,356
2021	3,716,316
2022	3,716,316
Thereafter	6,503,553
Total minimum payments	$ 39,274,292

Note 13 – Construction and Seismic Standards

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

Note 14 – Revenue from Governmental Programs

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

Additional legislation (SB335) extended the Program for the period from July 1, 2011 through December 31, 2013. Again, the Program included only private hospitals but did allow for direct grants to non-designated public hospitals. Additional legislation (SB239) extended the Program for the period from January 1, 2015 through December 31, 2016. The District recognized net patient service revenue of approximately $23,752,000 and $1,608,000 related to the Program during the years ended June 30, 2017 and 2016, respectively.

IGT Program – During 2017 and 2016, 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 $12,388,000 and $13,423,000 in net patient service revenue for the years ended June 30, 2017 and 2016, respectively. Fees paid by the District into the IGT Program were approximately $6,806,000 and $7,375,000 for the years ended June 30, 2017 and 2016, respectively, and are included in supplies and other expenses. The net impact of the IGT Program resulted in an increase in net position of approximately $5,582,000 and $6,048,000 for the years ended June 30, 2017 and 2016, respectively.

Meaningful use incentives – The American Recovery and Reinvestment Act of 2009 ("ARRA") established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology. The Medicare incentive payments will be paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medicare incentives, hospitals and physicians must meet EHR meaningful use criteria that become more stringent over three stages designated by CMS.

Note 14 – Revenue from Governmental Programs (continued)

Medicaid programs and payment schedules vary from state to state. The Medi-Cal programs required hospitals to register for the program prior to 2016, to engage in efforts to adopt, implement or upgrade certified EHR technology in order to qualify for the initial year of participation, and to demonstrate meaningful use of certified EHR technology in order to qualify for payment for up to three additional years. Certified results from the years ended June 30, 2014 and 2013 and incentives of approximately $1,551,000 were repaid by the District during the year ended June 30, 2017. Incentives for Medicare Meaningful Use Stage 2 Year 2 of approximately $948,000 were received during the year ended June 30, 2016. These payments and incentives are recognized following the grant accounting model, recognizing income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria.

Note 15 – Subsequent Events

Measure H – On November 7, 2017 the voters of Antelope Valley approved Measure H which will create a separate 501(c)(3) nonprofit entity governed by a 9-member Board comprised of the 5 elected District board members, three community members, and the Chief Executive Officer. The structure of the Board is designed to limit the majority of the board seats up for reelection or reappointment in any given year, thereby creating consistency among the Board and C-suite, and the opportunity to focus on long term strategic plans, sustainable financial performance, and improved quality. The nonprofit entity will operate the hospital through a transfer services agreement and have financial reporting responsibility to the District.

Required Supplementary Information

Antelope Valley Healthcare District
Schedule of Changes in the Net Pension Liability and Related Ratios
Last Ten Years*
For the Year Ended June 30, 2017

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

* Fiscal Year 2015 was the first year of implementation, therefore only three 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.

Change in assumptions – There were no changes in assumptions.

Antelope Valley Healthcare District
Schedule of Contributions
Last Ten Years
For the Year Ended June 30, 2017

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
6/30/2017	$13,875,355	$14,741,814	$ (866,459)	$150,657,227	9.78%	7/1/2016	7.00%
6/30/2016	13,400,105	18,711,728	(5,311,628)	147,694,076	12.67%	7/1/2015	7.25%
6/30/2015	13,497,568	13,888,450	(390,882)	145,363,784	9.55%	7/1/2014	7.50%
6/30/2014	17,804,538	7,226,851	10,577,687	141,499,947	5.11%	7/1/2013	8.00%
6/30/2013	16,717,000	8,076,596	8,640,404	136,714,925	5.91%	7/1/2012	8.00%
6/30/2012	15,110,012	6,879,315	8,230,697	138,940,618	4.95%	7/1/2011	8.00%
6/30/2011	12,757,461	7,240,424	5,517,037	134,153,568	5.40%	7/1/2010	8.00%
6/30/2010	11,053,926	5,830,054	5,223,872	127,037,158	4.59%	7/1/2009	8.00%
6/30/2009	10,163,395	5,660,550	4,502,845	107,653,212	5.26%	7/1/2008	8.00%
6/30/2008	10,159,993	2,997,248	7,162,745	100,178,228	2.99%	7/1/2007	8.00%
6/30/2007	10,911,300	2,546,342	8,364,958	93,458,358	2.72%	7/1/2006	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

Additional Supplementary Information

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

	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
CURRENT ASSETS						
Cash and cash equivalents	$ 51,099,692	$ 1,045,735	$ 4,627,982	$ 56,773,409	$ -	$ 56,773,409
Short-term investments	26,126,905	-	-	26,126,905	-	26,126,905
Restricted cash and investments, current	2,127,009	-	-	2,127,009	-	2,127,009
Patient accounts receivable, net	54,441,425	2,328,789	(60)	56,770,154	-	56,770,154
Other receivables, net	2,055,743	60,272	-	2,116,015	(119,123)	1,996,892
Supplies inventory	5,581,536	61,876	-	5,643,412	-	5,643,412
Prepaid expenses and other current assets	2,647,455	57,247	-	2,704,702	-	2,704,702
Estimated third-party payor settlements	6,040,294	-	-	6,040,294	-	6,040,294
Total current assets	150,120,059	3,553,919	4,627,922	158,301,900	(119,123)	158,182,777
NONCURRENT CASH AND INVESTMENTS						
Held by trustee	34,733,094	-	-	34,733,094	-	34,733,094
Less amounts required to meet current obligations	2,089,896	-	-	2,089,896	-	2,089,896
	32,643,198	-	-	32,643,198	-	32,643,198
Other long-term investments	76,590,199	-	-	76,590,199	-	76,590,199
Total noncurrent cash and investments	109,233,397	-	-	109,233,397	-	109,233,397
CAPITAL ASSETS, net	161,220,386	363,678	-	161,584,064	-	161,584,064
OTHER ASSETS	5,490,527	-	-	5,490,527	(1,090,282)	4,400,245
Total noncurrent assets	275,944,310	363,678	-	276,307,988	(1,090,282)	275,217,706
Total assets	426,064,369	3,917,597	4,627,922	434,609,888	(1,209,405)	433,400,483
DEFERRED OUTFLOWS OF RESOURCES						
Net difference between expected and actual earnings on pension plan investments	22,574,218	-	-	22,574,218	-	22,574,218
Deferred loss on debt defeasance	2,507,962	-	-	2,507,962	-	2,507,962
	25,082,180	-	-	25,082,180	-	25,082,180
Total assets and deferred outflows of resources	$ 451,146,549	$ 3,917,597	$ 4,627,922	$ 459,692,068	$ (1,209,405)	$ 458,482,663

(Continued)

Antelope Valley Healthcare District
Consolidating Schedule of Net Position (continued)
June 30, 2017

	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION						
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	$ 19,224,585	$ 1,042,759	$ 118,367	$ 20,385,711	$ (119,123)	$ 20,266,588
Accrued payroll and related expenses	13,877,196	412,652	-	14,289,848	-	14,289,848
Current maturities of long-term debt	6,032,779	60,826	-	6,093,605	-	6,093,605
Accrued self-insurance liabilities, current portion	7,662,402	-	-	7,662,402	-	7,662,402
Accrued interest payable	2,089,896	-	-	2,089,896	-	2,089,896
Total current liabilities	48,886,858	1,516,237	118,367	50,521,462	(119,123)	50,402,339
LONG-TERM DEBT, net of current portion	145,135,450	135,703	-	145,271,153	-	145,271,153
ACCRUED SELF-INSURANCE LIABILITIES, net of current portion	14,857,598	-	-	14,857,598	-	14,857,598
PENSION LIABILITIES	139,629,399	-	-	139,629,399	-	139,629,399
Total liabilities	348,509,305	1,651,940	118,367	350,279,612	(119,123)	350,160,489
				s		
DEFERRED INFLOWS OF RESOURCES						
Differences in experience (note 10)	3,071,897	-	-	3,071,897	-	3,071,897
NET POSITION						
Members' contributed capital	-	1,000,000	280,000	1,280,000	(1,280,000)	-
Net investment in capital assets	47,293,213	167,149	-	47,460,362	-	47,460,362
Restricted, expendable for:						
Workers' compensation collateral	37,113	-	-	37,113	-	37,113
Specific operating activities	162,058	-	1,118,968	1,281,026	-	1,281,026
Restricted, nonexpendable for minority interests	-	-	-	-	652,520	652,520
Unrestricted	52,072,963	1,098,508	3,110,587	56,282,058	(462,802)	55,819,256
Total net position	99,565,347	2,265,657	4,509,555	106,340,559	(1,090,282)	105,250,277
Total liabilities, deferred inflows of resources and net position	$ 451,146,549	$ 3,917,597	$ 4,627,922	$ 459,692,068	$ (1,209,405)	$ 458,482,663

See accompanying report of independent auditors.

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

	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
OPERATING REVENUES						
Net patient service revenue	$ 430,095,128	$ 15,929,972	$ -	$ 446,025,100	$ -	$ 446,025,100
Other revenue	11,474,810	23,577	-	11,498,387	(676,144)	10,822,243
Total operating revenue	441,569,938	15,953,549	-	457,523,487	(676,144)	456,847,343
OPERATING EXPENSES						
Salaries and wages	163,697,171	4,008,971	92,449	167,798,591	-	167,798,591
Employee benefits	55,300,709	718,066	-	56,018,775	-	56,018,775
Professional and medical fees	44,110,153	6,954,102	550	51,064,805	-	51,064,805
Purchased services	29,015,749	-	3,589	29,019,338	-	29,019,338
Supplies and other expenses	100,363,090	3,589,040	132,686	104,084,816	(370,485)	103,714,331
Depreciation and amortization	14,108,407	233,079	-	14,341,486	-	14,341,486
Total operating expenses	406,595,279	15,503,258	229,274	422,327,811	(370,485)	421,957,326
OPERATING INCOME (LOSS)	34,974,659	450,291	(229,274)	35,195,676	(305,659)	34,890,017
NONOPERATING REVENUES (EXPENSES)						
Grant revenue and contributions	3,082,241	-	683,426	3,765,667	43,514	3,809,181
Investment income	1,030,105	-	686	1,030,791	-	1,030,791
Bond issuance costs	(36,000)	-	-	(36,000)	-	(36,000)
Interest expense	(8,094,227)	(13,203)	(4)	(8,107,434)	-	(8,107,434)
Total nonoperating revenues (expenses), net	(4,017,881)	(13,203)	684,108	(3,346,976)	43,514	(3,303,462)
Income before capital contributions	30,956,778	437,088	454,834	31,848,700	(262,145)	31,586,555
CAPITAL CONTRIBUTIONS	43,514	-	-	43,514	(43,514)	-
Change in net position	31,000,292	437,088	454,834	31,892,214	(305,659)	31,586,555
NET POSITION, Beginning of year	68,565,055	1,828,569	4,054,721	74,448,345	(784,623)	73,663,722
NET POSITION, End of year	$ 99,565,347	$ 2,265,657	$ 4,509,555	$ 106,340,559	$ (1,090,282)	$ 105,250,277

See accompanying report of independent auditors.

Antelope Valley Healthcare District
Consolidating Schedule of Net Position
June 30, 2016

	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
CURRENT ASSETS						
Cash and cash equivalents	$ 14,080,999	$ 389,917	$ 4,182,771	$ 18,653,687	$ -	$ 18,653,687
Short-term investments	52,929,399	-	-	52,929,399	-	52,929,399
Restricted cash and investments, current	1,894,596	-	-	1,894,596	-	1,894,596
Patient accounts receivable, net	54,088,504	2,421,825	-	56,510,329	-	56,510,329
Other receivables, net	2,324,359	60,272	-	2,384,631	(115,115)	2,269,516
Supplies inventory	5,639,571	64,608	-	5,704,179	-	5,704,179
Prepaid expenses and other current assets	2,255,518	59,973	-	2,315,491	-	2,315,491
Estimated third-party payor settlements	6,787,283	-	-	6,787,283	-	6,787,283
Total current assets	140,000,229	2,996,595	4,182,771	147,179,595	(115,115)	147,064,480
NONCURRENT CASH AND INVESTMENTS						
Held by trustee	17,881,445	-	-	17,881,445	-	17,881,445
Less amounts required to meet current obligations	1,857,483	-	-	1,857,483	-	1,857,483
	16,023,962	-	-	16,023,962	-	16,023,962
Other long-term investments	50,223,139	-	-	50,223,139	-	50,223,139
Total noncurrent cash and investments	66,247,101	-	-	66,247,101	-	66,247,101
CAPITAL ASSETS, net	162,615,966	584,651	-	163,200,617	-	163,200,617
OTHER ASSETS	894,599	-	-	894,599	(784,623)	109,976
Total noncurrent assets	229,757,666	584,651	-	230,342,317	(784,623)	229,557,694
Total assets	369,757,895	3,581,246	4,182,771	377,521,912	(899,738)	376,622,174
DEFERRED OUTFLOWS OF RESOURCES						
Net difference between expected and actual earnings on pension plan investments	20,518,297	-	-	20,518,297	-	20,518,297
Deferred loss on debt defeasance	4,633,772	-	-	4,633,772	-	4,633,772
	25,152,069	-	-	25,152,069	-	25,152,069
Total assets and deferred outflows of resources	$ 394,909,964	$ 3,581,246	$ 4,182,771	$ 402,673,981	$ (899,738)	$ 401,774,243

(Continued)

Antelope Valley Healthcare District
Consolidating Schedule of Net Position (continued)
June 30, 2016

LIABILITIES AND NET POSITION	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	$ 17,459,926	$ 797,250	$ 128,050	$ 18,385,226	$ (115,115)	$ 18,270,111
Accrued payroll and related expenses	14,605,108	624,638	-	15,229,746	-	15,229,746
Current maturities of long-term debt	2,164,729	134,260	-	2,298,989	-	2,298,989
Accrued self-insurance liabilities, current portion	7,698,318	-	-	7,698,318	-	7,698,318
Accrued interest payable	1,857,483	-	-	1,857,483	-	1,857,483
Total current liabilities	43,785,564	1,556,148	128,050	45,469,762	(115,115)	45,354,647
LONG-TERM DEBT, net of current portion	130,351,277	196,529	-	130,547,806	-	130,547,806
ACCRUED SELF-INSURANCE LIABILITIES, net of current portion	14,889,092	-	-	14,889,092	-	14,889,092
PENSION AND OPEB LIABILITIES	133,187,804	-	-	133,187,804	-	133,187,804
Total liabilities	322,213,737	1,752,677	128,050	324,094,464	(115,115)	323,979,349
DEFERRED INFLOWS OF RESOURCES						
Differences in experience (note 10)	4,131,172	-	-	4,131,172	-	4,131,172
NET POSITION						
Members' contributed capital	-	1,000,000	280,000	1,280,000	(1,280,000)	-
Net investment in capital assets	52,615,177	253,862	-	52,869,039	-	52,869,039
Restricted, expendable for:						
Workers' compensation collateral	37,113	-	-	37,113	-	37,113
Specific operating activities	164,202	-	-	164,202	-	164,202
Restricted, nonexpendable for minority interests	-	-	-	-	521,594	521,594
Unrestricted	15,748,563	574,707	3,774,721	20,097,991	(26,217)	20,071,774
Total net position	68,565,055	1,828,569	4,054,721	74,448,345	(784,623)	73,663,722
Total liabilities and net position	$ 394,909,964	$ 3,581,246	$ 4,182,771	$ 402,673,981	$ (899,738)	$ 401,774,243

Antelope Valley Healthcare District
Consolidating Schedule of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
OPERATING REVENUES						
Net patient service revenue	$ 387,810,831	$ 15,317,708	$ -	$ 403,128,539	$ -	$ 403,128,539
Other revenue	8,426,464	17,385	-	8,443,849	(660,475)	7,783,374
Total operating revenue	396,237,295	15,335,093	-	411,572,388	(660,475)	410,911,913
OPERATING EXPENSES						
Salaries and wages	168,411,471	3,770,908	77,025	172,259,404	-	172,259,404
Employee benefits	57,395,025	686,995	-	58,082,020	-	58,082,020
Professional and medical fees	22,887,524	6,702,822	780	29,591,126	-	29,591,126
Purchased services	30,545,474	-	3,900	30,549,374	-	30,549,374
Supplies and other expenses	96,054,903	3,177,766	138,412	99,371,081	(514,110)	98,856,971
Depreciation and amortization	14,305,308	763,117	-	15,068,425	-	15,068,425
Total operating expenses	389,599,705	15,101,608	220,117	404,921,430	(514,110)	404,407,320
OPERATING INCOME (LOSS)	6,637,590	233,485	(220,117)	6,650,958	(146,365)	6,504,593
NONOPERATING REVENUES (EXPENSES)						
Grant revenue and contributions	3,029,817	-	5,578	3,035,395	524,613	3,560,008
Investment income	1,367,952	-	56,876	1,424,828	-	1,424,828
Bond issuance costs	(2,420,567)	-	-	(2,420,567)	-	(2,420,567)
Interest expense	(6,705,989)	(23,563)	-	(6,729,552)	-	(6,729,552)
Total nonoperating revenues (expenses), net	(4,728,787)	(23,563)	62,454	(4,689,896)	524,613	(4,165,283)
Income (loss) before capital contributions	1,908,803	209,922	(157,663)	1,961,062	378,248	2,339,310
CAPITAL CONTRIBUTIONS	524,613	-	-	524,613	(524,613)	-
Change in net position	2,433,416	209,922	(157,663)	2,485,675	(146,365)	2,339,310
NET POSITION, Beginning of year	66,131,639	1,618,647	4,212,384	71,962,670	(638,258)	71,324,412
NET POSITION, End of year	$ 68,565,055	$ 1,828,569	$ 4,054,721	$ 74,448,345	$ (784,623)	$ 73,663,722

See accompanying report of independent auditors.

Single Audit Reports and Related Schedules

MOSSADAMS

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

To Management and Board of Directors
Antelope Valley Healthcare District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Antelope Valley Healthcare District (the "District") as of and for the year ended June 30, 2017, and the related notes to the consolidated financial statements, which collectively comprise Antelope Valley Healthcare District's basic financial statements, and have issued our report thereon dated November 21, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Moss Adams LLP

Los Angeles, California
November 21, 2017

MOSSADAMS

Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To Management and Board of Directors
Antelope Valley Healthcare District

Report on Compliance for the Major Federal Program

We have audited Antelope Valley Healthcare District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Antelope Valley Healthcare District's major federal program for the year ended June 30, 2017. Antelope Valley Healthcare District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Antelope Valley Healthcare District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Antelope Valley Healthcare District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Antelope Valley Healthcare District's compliance.

Opinion on the Major Federal Program

In our opinion, Antelope Valley Healthcare District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of Antelope Valley Healthcare District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Antelope Valley Healthcare District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Antelope Valley Healthcare District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Moss Adams LLP

Los Angeles, California
November 21, 2017

Antelope Valley Healthcare District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number/ Pass-through Entity Identifying Number	Passed-through to Subrecipients	Federal Expenditures through June 30, 2017
U.S. Department of Agriculture				
Passed through the California Department of Health:				
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	15-10054	$ -	$ 2,880,195
Total U.S. Department of Agriculture			-	2,880,195
U.S. Department of Health and Human Services				
Passed through the Los Angeles County Department of Health Services:				
National Bioterrorism Hospital Preparedness Program	93.074	300089	-	72,104
Total U.S. Department of Health and Human Services			-	72,104
Total Federal Expenditures			$ -	$ 2,952,299

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Antelope Valley Healthcare District
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Antelope Valley Healthcare District (District) under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flow of the District.

The District's reporting entity is defined in note 1 of the consolidated financial statements. All federal awards from federal agencies are included in the Schedule.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Under the accrual basis of accounting, expenditures are recognized when incurred. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures reported include any property or equipment acquisitions incurred under the federal program. Pass-through entity identifying numbers are presented where available.

The District has not elected to use the 10 percent de minimis indirect cost rate as described in 2 CFR 200.414.

Section I – Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ Yes ☒ No

Identification of major federal programs and type of auditor's report issued on compliance for major federal programs:

CFDA Number(s)	*Name of Federal Program or Cluster*	*Type of Auditor's Report Issued on Compliance for Major Federal Programs*
10.557	U. S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants and Children	Unmodified

Dollar threshold used to distinguish between type A and type B programs: $ 750,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

None reported.

ANTELOPE VALLEY
HOSPITAL
A facility of Antelope Valley Healthcare District

Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2017

The following was reported as a finding in the audit of Antelope Valley Healthcare District for the year ended June 30, 2016.

FINDING 2016-001 – Review of Nonroutine Adjustments and Cost Report Estimates (significant deficiency)

***Status of Finding*:** Corrected; this finding is considered to be resolved.