RESOLUTION NO. 02.26.13(01)-1

RESOLUTION OF THE BOARD OF DIRECTORS OF PALOMAR HEALTH DEVELOPMENT, INC. AUTHORIZING ACCEPTANCE OF THE INDEPENDENT AUDIT OF THE ANNUAL FINANCIAL REPORT OF PALOMAR HEALTH DEVELOPMENT, INC., FOR FISCAL YEAR END 2012 AS THE ANNUAL REPORT

(in accordance with Article VII, Section 7.09 of the Bylaws of Palomar Health Development, Inc.)

WHEREAS, Palomar Health Development, Inc. [**Palomar Health Development**] is required, pursuant to Section 54954 of the California Government Code and Article VII, Section 7.09 of the Palomar Health Development Bylaws, to pass a resolution accepting the Annual Report; and,

WHEREAS, no later than one hundred twenty (120) days after the close of the Corporation's fiscal year, the Corporation shall make available to each director an Annual Report in accordance with Section 6321 of the Law, which shall be accompanied by any report of independent accountants or, if there is no such accountant's report, the certificate of an authorized officer of the Corporation that such statements were prepared without audit from the books and records of the Corporation; and,

WHEREAS, it is understood that the Fiscal Year End 2012 Audit was delayed for good and purposeful reasons and, therefore, not completed within 120 days;

NOW, THEREFORE, IT IS HEREBY RESOLVED by the Board of Directors of Palomar Health Development that the Annual Financial Report for Fiscal Year End 2012 (Audited) of Palomar Health Development, Inc., a California Nonprofit Public Benefit Corporation, as augmented by the report of independent accountants of AKT, LLP, of Carlsbad, California, dated February 14, 2013, *and adopted in the form attached hereto*, is hereby accepted as the Annual Report of Palomar Health Development.

PASSED AND ADOPTED at the meeting of the Board of Directors of Palomar Health Development, held on February 26, 2013, by the following vote:

AYES:	Covert	Greer	Hemker
	Kleiter	Krider	
NOES:			
ABSENT:			
ABSTAINING:			

DATED: **February 26, 2013**

APPROVED:

Linda C Greer RN

Linda C. Greer, RN, Chairperson
Board of Directors
Palomar Health Development, Inc.

ATTESTED:

T.E. Kleiter, Secretary
Board of Directors
Palomar Health Development, Inc.

Palomar Health Development, Inc.

Financial Statements

Years Ended June 30, 2012 and 2011

AKT
CPAs and Business Consultants

PALOMAR HEALTH DEVELOPMENT, INC.
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Palomar Health Development, Inc.
Escondido, California

We have audited the accompanying statements of financial position of Palomar Health Development, Inc. (a nonprofit organization) as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Palomar Health Development, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palomar Health Development, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

AKT LLP

Carlsbad, California
February 14, 2013

PALOMAR HEALTH DEVELOPMENT, INC.

Statements of Financial Position

June 30, 2012 and 2011

	2012	2011
ASSETS		
Current Assets:		
Cash	$ 845,561	$ 721,481
Grants receivable	703,981	522,815
Prepaid expenses	2,140	2,128
Total Current Assets	1,551,682	1,246,424
Property and Equipment, net of accumulated depreciation	345	804
Total Assets	$ 1,552,027	$ 1,247,228
LIABILITIES AND NET DEFICIT		
Current Liabilities:		
Current portion of note payable - Palomar Pomerado Health	$ 120,000	$ 120,000
Accounts payable	582,332	433,522
Accrued expenses	38,267	15,500
Deferred revenue	136,182	95,720
Total Current Liabilities	876,781	664,742
Note Payable, net of current portion - Palomar Pomerado Health	2,771,585	2,796,107
Total Liabilities	3,648,366	3,460,849
Net Assets (Deficit):		
Unrestricted	(2,430,659)	(2,643,184)
Temporarily restricted	334,320	429,563
Total Net Deficit	(2,096,339)	(2,213,621)
Total Liabilities and Net Deficit	$ 1,552,027	$ 1,247,228

See accompanying notes to financial statements.

PALOMAR HEALTH DEVELOPMENT, INC.

Statement of Activities

Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Total
Revenue and Support:			
Contract revenue	$ 3,331,319	$ -	$ 3,331,319
Other income	250	-	250
Net assets released from restrictions, satisfaction of program restrictions	95,243	(95,243)	-
Total Revenue and Support	3,426,812	(95,243)	3,331,569
Expenses:			
Program services	2,324,800	-	2,324,800
General and administrative	889,487	-	889,487
Total Expenses	3,214,287	-	3,214,287
Increase (Decrease) in Net Assets	212,525	(95,243)	117,282
Net Assets (Deficit), beginning	(2,643,184)	429,563	(2,213,621)
Net Assets (Deficit), ending	$ (2,430,659)	$ 334,320	$ (2,096,339)

See accompanying notes to financial statements.

PALOMAR HEALTH DEVELOPMENT, INC.

Statement of Activities

Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Total
Revenue and Support:			
Contract revenue	$ 2,760,504	$ -	$ 2,760,504
Contributions	-	469,485	469,485
Other income	295	-	295
Net assets released from restrictions, satisfaction of program restrictions	78,862	(78,862)	-
Total Revenue and Support	2,839,661	390,623	3,230,284
Expenses:			
Program services	2,242,294	-	2,242,294
General and administrative	328,584	-	328,584
Total Expenses	2,570,878	-	2,570,878
Increase (Decrease) in Net Assets	268,783	390,623	659,406
Net Assets (Deficit), beginning	(2,911,967)	38,940	(2,873,027)
Net Assets (Deficit), ending	$ (2,643,184)	$ 429,563	$ (2,213,621)

See accompanying notes to financial statements.

PALOMAR HEALTH DEVELOPMENT, INC.

Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities:		
Increase in net assets	$ 117,282	$ 659,406
Adjustments to reconcile decrease in net assets deficit to net cash provided by operating activities:		
Depreciation	459	1,470
Note payable discount - Palomar Pomerado Health	95,478	(469,485)
Changes in operating assets and liabilities:		
Grants receivable	(181,166)	28,429
Prepaid expenses	(12)	203
Accounts payable	148,810	(86,080)
Accrued expenses	22,767	(5,500)
Deferred revenue	40,462	(32,287)
Net Cash Provided by Operating Activities	244,080	96,156
Cash Flows from Financing Activities:		
Increase in line of credit - Palomar Pomerado Health	-	1,600
Payments on line of credit - Palomar Pomerado Health	-	(12,122)
Increase in note payable - Palomar Pomerado Health	-	1,082
Payments on note payable - Palomar Pomerado Health	(120,000)	(20,078)
Net Cash Used by Financing Activities	(120,000)	(29,518)
Net Increase in Cash	124,080	66,638
Cash, beginning	721,481	654,843
Cash, ending	$ 845,561	$ 721,481
Supplemental Disclosure of noncash financing activities		
Interest relieved from restrictions as contribution	$ 95,478	$ 39,922
Line of credit converted to note payable	$ -	$ 3,404,558

Note 1 - Organization and Summary of Significant Accounting Policies

Nature of Activities
Palomar Health Development, Inc. (Organization) is a California charitable nonprofit public benefit corporation organized in January 2005 to support Palomar Pomerado Health (PPH), a California local health care district, by acquiring grant funding.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Financial Statement Presentation
The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.

- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Organization may spend the funds.

- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

The Organization had no permanently restricted net assets during the years ended June 30, 2012 and 2011.

Receivables
Grants receivable arise in the normal course of business. It is the policy of management to review the outstanding receivables at year end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts. Management believes all receivables are fully collectible. Therefore, no allowance for doubtful accounts is considered necessary.

Property and Equipment
Property and equipment purchases greater than $1,000 are capitalized and recorded at cost. Expenditures for maintenance and repairs are charged against operations. Depreciation is provided on the straight-line method over the estimated useful lives of the assets of three to five years. Equipment acquired using grant funds is considered to be owned by the Organization while used in the program for which it was purchased.

Revenue Recognition
Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Revenue from grants/contracts is recognized to the extent of eligible costs incurred up to an amount not to exceed the total grant/contract authorized. Deferred revenue results from grant awards received that are applicable to the subsequent period.

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Contributed Materials and Services
Contributed materials are recorded at their fair market value where an objective basis is available to measure their value. Such items are capitalized or charged to operations as appropriate.

The Organization receives services donated by volunteers in carrying out its program services. No amounts have been recorded for those services, as they do not meet the requirements for recognition as contributions in the financial statements.

Fair Value Measurements
The Organization defines fair value as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. The Organization applies fair value measurements to assets and liabilities that are required to be recorded at fair value under generally accepted accounting principles. Fair value measurement techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

The carrying value of cash, receivables, and payables approximate fair values as of June 30, 2012 and 2011, due to the relative short maturities of these instruments.

Income Taxes
The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. The Organization may be subject to tax on income which is not related to its exempt purpose. For the years ended June 30, 2012 and 2011, no such unrelated business income was reported and, therefore, no provision for income taxes has been made.

The Organization has considered the tax positions taken in its tax returns and believes that all of the positions taken by the Foundation in its federal and state exempt organization tax returns are more likely-than not to be sustained upon examination. The Organization files income tax returns in the United States and various state and local jurisdictions. The Foundation's federal income tax returns for the years prior to 2009 are closed. State and local jurisdictions have statutes of limitation that generally ranged from three to five years.

Subsequent Events
The Organization has evaluated subsequent events through February 14, 2013, which is the date the financial statements were available to be issued.

Note 2 - Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Note 3 - Concentrations of Credit Risk

Cash
The Organization maintains its cash in bank deposit accounts that are either insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of $250,000 per depositor or certain non-interest bearing accounts that are fully insured by the FDIC. At June 30, 2012, the Organization's total uninsured cash balance was $56,135.

Effective January 1, 2013, the FDIC coverage will be limited to $250,000 per depositor per financial institution.

Note 3 - Concentrations of Credit Risk, continued

Contract Revenue
In May 2010, the Organization and the First 5 Commission of San Diego (Commission) entered into an agreement to provide health development services for children birth through five years of age. The initial agreement was for a one year term, from July 1, 2010 to June, 30, 2011, with the option to extend in four increments of one year. The Healthy Development Services Program (Program), funded by the Commission, provided 52% and 64% of the Organization's contract revenue for the years ended June 30, 2012 and 2011, and 58% and 48% of the Organization's grants receivable at June 30, 2012 and 2011, respectively. The Program has been extended for the third incremental term beginning July 1, 2012 and ending June 30, 2013. The budget for this period will be approximately $2,507,251.

Economic Dependency
The Organization is economically dependent on PPH.

Note 4 - Property and Equipment

Property and equipment consist of the following:

	2012	2011
Equipment	$ 13,931	$ 13,931
Software	15,009	15,009
	28,940	28,940
Less accumulated depreciation	(28,595)	(28,136)
	$ 345	$ 804

Note 5 - Net Assets

At June 30, 2012 and June 30, 2011, temporarily restricted net assets are available for interest on the note payable to PPH.

Net assets were released from donor restrictions by incurring expenditures satisfying the restrictions as follows:

	2012	2011
Interest on note payable to Palomar Pomerado Health	$ 95,243	$ 39,922
Student Health Career Navigator	-	38,940
	$ 95,243	$ 78,862

Note 6 - Related Party Transactions

Purchases
The Organization reimburses PPH for all payroll services provided as well as other expenses. At June 30, 2012 and 2011, the amount due to PPH included in accounts payable was $450,455 and $325,799, respectively.

Note 6 - Related Party Transactions, continued

Line of Credit and Note Payable
The Organization had a line of credit from PPH that expired on January 24, 2011. The line of credit incurred interest at 2.5% above the LIBOR (3.28% at January 24, 2011) and was adjusted quarterly. Interest expense for the line of credit was $67,878 for the year ended 2011.

In February 2011, PPH's Board of Directors approved a request from the Organization to restructure the line of credit as a note payable. Under the new terms, the note is interest-free, 60 payments of $10,000 are due monthly, and a balloon payment is due on January 24, 2016. The Organization recorded a contribution and a discount for the imputed interest using the rate of 3.28% (line of credit rate at expiration). Imputed interest expense of $95,478 and $39,922 is reported in the statement of activities for the year ended June 30, 2012 and 2011, respectively.

The note payable is secured by substantially all the Organization's assets.

Scheduled maturities of the note payable are as follows:

Year ending June 30,		
2013	$	120,000
2014		120,000
2015		120,000
2016		2,865,905
		3,225,905
Less unamortized discount		(334,320)
		2,891,585
Less current portion		(120,000)
	$	2,771,585

Note 7 - Operating Leases

The Organization leased office space and clinical support services in Escondido for the Healthy Development Services Program. The initial lease term was from July 1, 2010 to January 31, 2011, the Organization did not renew the lease; rather, it relocated to a larger site on the Palomar Health Campus and rents the office space from PPH. Rent expense was $3,700 and $18,302 for the years ended June 30, 2012 and 2011, respectively.