RESOLUTION NO. 04.04.17(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 2016 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 2016 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 2016 (Audited) of Palomar Health Development, Inc., a California Nonprofit Public Benefit Corporation, as augmented by the report of independent accountants of Aldrich CPAs + Advisors, LLC (formerly known as AKT, LLP), of San Diego, California, dated March 27, 2017, *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 April 4, 2017, by the following vote:

AYES:	Gorzeman Sison	Griffith	Hansen
NOES:			
ABSENT:	Hemker		
ABSTAINING:			
DATED:	April 4, 2017		

APPROVED:

Hans Christian Sison, Chairperson
Board of Directors
Palomar Health Development, Inc.

ATTESTED:

Joy Gorzeman, RN, Secretary
Board of Directors
Palomar Health Development, Inc.

PALOMAR HEALTH DEVELOPMENT, INC.

Financial Statements

Years Ended June 30, 2016 and 2015

PALOMAR HEALTH DEVELOPMENT, INC.
Financial Statements
Years Ended June 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Palomar Health Development, Inc., which comprise the financial position as of June 30, 2016 and 2015, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palomar Health Development, Inc. as of June 30, 2016 and 2015, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding Economic Dependency

Palomar Health Development is economically dependent on Palomar Health (PH). Our opinion is not modified with respect to that matter.

AKT LLP

Carlsbad, California
March 27, 2017

PALOMAR HEALTH DEVELOPMENT, INC.

Statements of Financial Position

June 30, 2016 and 2015

	2016	2015
ASSETS		
Current Assets:		
Cash	$ 1,096,691	$ 1,239,237
Grants receivable	775,308	852,562
Prepaid expenses	2,303	2,190
Total Assets	$ 1,874,302	$ 2,093,989
LIABILITIES AND NET DEFICIT		
Current Liabilities:		
Current portion of line of credit - Palomar Health	$ 120,000	$ 120,000
Accounts payable	664,097	933,324
Accrued expenses	10,600	31,200
Deferred revenue	6,013	6,013
Total Current Liabilities	800,710	1,090,537
Line of Credit, net of current portion - Palomar Health	2,219,244	2,692,169
Total Liabilities	3,019,954	3,782,706
Net Deficit:		
Unrestricted	(1,603,542)	(1,785,067)
Temporarily restricted	457,890	96,350
Total Net Deficit	(1,145,652)	(1,688,717)
Total Liabilities and Net Deficit	$ 1,874,302	$ 2,093,989

See accompanying notes to financial statements.

PALOMAR HEALTH DEVELOPMENT, INC.

Statement of Activities

Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue and Support:			
Contract revenue	$ 3,447,264	$ 8,565	$ 3,455,829
Contributions	-	444,714	444,714
Other income	580	-	580
Net assets released from restrictions, satisfaction of program restrictions	91,739	(91,739)	-
Total Revenue and Support	3,539,583	361,540	3,901,123
Expenses:			
Program services	2,907,239	-	2,907,239
General and administrative	450,819	-	450,819
Total Expenses	3,358,058	-	3,358,058
Changes in Net Assets	181,525	361,540	543,065
Net Assets (Deficit), beginning	(1,785,067)	96,350	(1,688,717)
Net Assets (Deficit), ending	$ (1,603,542)	$ 457,890	$ (1,145,652)

PALOMAR HEALTH DEVELOPMENT, INC.

Statement of Activities

Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
Revenue and Support:			
Contract revenue	$ 4,468,730	$ -	$ 4,468,730
Contributions	-	24,214	24,214
Other income	47	-	47
Net assets released from restrictions, satisfaction of program restrictions	169,205	(169,205)	-
Total Revenue and Support	4,637,982	(144,991)	4,492,991
Expenses:			
Program services	3,499,199	-	3,499,199
General and administrative	881,889	-	881,889
Total Expenses	4,381,088	-	4,381,088
Changes in Net Assets	256,894	(144,991)	111,903
Net Assets (Deficit), beginning	(2,041,961)	241,341	(1,800,620)
Net Assets (Deficit), ending	$ (1,785,067)	$ 96,350	$ (1,688,717)

PALOMAR HEALTH DEVELOPMENT, INC.

Statements of Cash Flows

Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities:		
Changes in net assets	$ 543,065	$ 111,903
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Line of credit discount - Palomar Health	91,739	92,612
Changes in operating assets and liabilities:		
Grants receivable	77,254	7,671
Prepaid expenses	(113)	(103)
Accounts payable	(269,227)	208,940
Accrued expenses	(20,600)	15,300
Deferred revenue	-	(10,945)
Net Cash Provided by Operating Activities	422,118	425,378
Cash Flows from Financing Activities:		
Payments on line of credit - Palomar Health	(564,664)	(120,000)
Net Increase (Decrease) in Cash	(142,546)	305,378
Cash, beginning	1,239,237	933,859
Cash, ending	$ 1,096,691	$ 1,239,237
Supplemental disclosure of noncash financing activities:		
Interest relieved from restrictions as contribution	$ 91,739	$ 92,612

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 Health (PH), 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, 2016 and 2015.

Grants Receivable
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.

Revenue Recognition
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.

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.

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.

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

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, 2016 and 2015, 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, 2016 and 2015, 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 Organization in its federal and state exempt organization tax returns are more likely-than not to be sustained upon examination.

Subsequent Events
The Organization has evaluated subsequent events through March 27, 2017, which is the date the financial statements were available to be issued.

Note 2 - Concentrations of Credit Risk

Cash
The Organization maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of $250,000 per depositor, per financial institution. At June 30, 2016 and 2015, the Organization’s total uninsured cash balance was $582,706 and $682,811, respectively.

The Organization maintains its cash in an account with a brokerage firm that is insured by the Securities Investor Protection Corporation (SIPC) up to a limit of $500,000, which includes a $250,000 limit for cash. At June 30, 2016 and 2015, the Organization’s total uninsured securities cash balance was $57,006 and $56,427, respectively.

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 54% and 48% of the Organization’s contract revenue for the years ended June 30, 2016 and 2015, and 47% and 47% of the Organization’s grants receivable at June 30, 2016 and 2015, respectively. The agreement has been amended for a term beginning July 1, 2015 and ending June 30, 2016, with an additional five option years.

In June 2013, the Organization and the First 5 Commission of San Diego (Commission) entered into an agreement to provide targeted home visiting initiative services. The First Five First Steps (Program), funded by the Commission, provided 37% and 32% of the Organization’s contract revenue for the years ended June 30, 2016 and 2015, and 38% and 42% of the Organization’s grants receivable at June 30, 2016 and 2015. The Program has been amended to add five option years and the Organization has acted on one option, extending the contract through June 30, 2016, with four option years remaining.

Note 2 - Concentrations of Credit Risk, continued

Economic Dependency
The Organization is economically dependent on PH.

Note 3 - Net Assets

Temporarily restricted net assets are available for the following purposes at August 31:

	2016	2015
Interest on note payable to Palomar Health	$ 406,705	$ 53,730
CareFusion Grant	37,621	37,621
Marjorie Mosher	13,564	4,999
	$ 457,890	$ 96,350

During the years ended June 30, 2016 and 2015, net assets were released from donor restrictions by incurring expenditures satisfying the restrictions as follows:

	2016	2015
Interest on note payable to Palomar Health	$ 91,739	$ 92,612
ASHP Foundation Grant	-	40,000
Neighborhood Reinvestment Project (NRP) II	-	13,500
CareFusion Grant	-	12,379
Neighborhood Reinvestment Project (NRP) I	-	10,714
	$ 91,739	$ 169,205

Note 4 - Related Party Transactions

Purchases
The Organization reimburses PH for all payroll services provided as well as other expenses. At June 30, 2016 and 2015, the amount due to PH included in accounts payable was $544,766 and $712,950, respectively.

The organization had a note payable from PPH that expired on January 24, 2016. In March 2016, PH’s Board of Directors approved a request from the Organization to amend the note payable as a line of credit. Under the new terms, the line of credit is interest-free, 60 payments of $10,000 are due monthly, and a balloon payment is due on January 24, 2021. At June 30, 2016 and 2015, the amount due to PH was $2,339,244 and $2,812,169, respectively. 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 $91,739 and $92,612 is reported in the statement of activities for the year ended June 30, 2016 and 2015, respectively.

The line of credit is secured by substantially all the Organization’s assets.

Note 4 - Related Party Transactions, continued

Scheduled maturities of the line of credit are as follows:

Year ending June 30,		
2017	$	120,000
2018		120,000
2019		120,000
2020		120,000
2021		2,265,950
		2,745,950
Less unamortized discount		(406,706)
		2,339,244
Less current portion		(120,000)
	$	2,219,244

Operating Lease

The Organization leases office space and clinical support services on the Palomar Health Campus and rents the office space from PH (a related party) for the Healthy Development Services Program. The initial lease terms with Palomar Health were from July 1, 2012 to June 30, 2013. The lease has been amended to extend the agreement for an additional year, expiring on June 30, 2017. Effective July 1, 2013, the Organization also receives donated space for the First Five Steps Program from Palomar Health in return for maintenance upkeep. Rent expense was $25,428 and $145,259 for the years ended June 30, 2016 and 2015, respectively.