

RESOLUTION NO. 12.17.20(03)-3

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 2020
AS THE ANNUAL REPORT

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 Amended and Restated Bylaws of Palomar Health Development, 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 2020 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 2020 (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, of San Diego, California, as presented to the Board of Directors on December 17, 2020, *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 December 17, 2020, by the following vote:

AYES: Griffith Hansen Bogert

NOES:

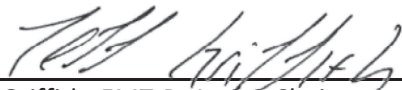
ABSENT: Vacancy Vacancy

ABSTAINING:

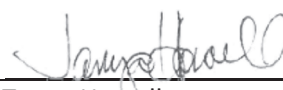
DATED: December 17, 2020

APPROVED:

ATTESTED:



Jeff Griffith, EMT-P, Acting Chairperson
Board of Directors
Palomar Health Development, Inc.



Tanya Howell
Corporate Secretary
Palomar Health Development, Inc.

Palomar Health Development, Inc.

Report to the Board of Directors

Year Ended June 30, 2020



TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS	2
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE	3
SUMMARY OF ADJUSTMENTS	5
MANAGEMENT REPRESENTATION LETTER	6

To assist you in your responsibilities as a member of the Board of Directors, this section summarizes the most significant conclusions reached and issues addressed during our audit of Palomar Health Development, Inc. for the year ended June 30, 2020.

Significant Conclusions and Issues

We have completed our audit and have issued our report dated October 22, 2020. Based on our work performed:

- Our audit scope was in accordance with our engagement letter dated August 14, 2020.
- We rendered an unmodified opinion on the June 30, 2020 financial statements, with an emphasis of a matter.
- We did not identify conditions which we consider to be material weaknesses in internal controls.
- Audit areas designated as greater than normal risk have been addressed and resolved to our satisfaction, in the context of the overall fairness of the presentation of the financial statements.
- We received the full cooperation of management and staff throughout the audit and were kept informed as to developments and plans affecting our audit scope.

The following report includes required communications and additional information for the benefit of the Board of Directors



Aldrich CPAs + Advisors LLP
5946 Priestly Drive, #200
Carlsbad, California 92008

October 22, 2020

To the Board of Directors
Palomar Health Development, Inc.

In planning and performing our audit of the financial statements of Palomar Health Development, Inc. (Organization) as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 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 and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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 exist that have not been identified.

This communication is intended solely for the information and use of the Board of Directors and management of Palomar Health Development, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Aldrich CPAs + Advisors LLP

Aldrich CPAs + Advisors LLP

October 22, 2020

To the Board of Directors
Palomar Health Development, Inc.

We have audited the financial statements of Palomar Health Development, Inc. (Organization) for the year ended June 30, 2020, and have issued our report thereon dated October 22, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 14, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 1 to the financial statements. As noted in footnote 1, there were two new standards implemented for the year ended June 30, 2020, Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (Topic 606) and Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). There was no change in accounting necessary related to the implementation of these standards. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is:

Management's estimate for the allowance for doubtful accounts. It is the policy of management to review the outstanding receivables at year end, as well as 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.

Management's estimate of the allocation of functional expenses is based on appropriate assumptions. We evaluated the key factors and assumptions used to develop the assumptions related to the allocation of functional expenses in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are Note 3 and Note 4 to the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. A copy of the audit adjustment and passed adjustment are included on page 5.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 22, 2020. A copy of that letter is included in this report for your reference.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Board of Directors and management of Palomar Health Development, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Aldrich CPAs + Advisors LLP

Aldrich CPAs + Advisors LLP

SUMMARY OF ADJUSTMENTS



<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 1			
To adjust beginning net assets to reconcile to prior year report			
1190	Interfund Receivable	999.00	
3010	Fund Balance		999.00
Total		<u>999.00</u>	<u>999.00</u>

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 202			
To reduce interfund balance to \$0			
1190	Interfund Receivable	76.00	
8118	Supplies Other		76.00
Total		<u>76.00</u>	<u>76.00</u>

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Proposed JE # 201			
To remove the accrued audit fees for FY 2020			
2110	Accrued Audit Expense	18,000.00	
6520	Accounting Fees		18,000.00
Total		<u>18,000.00</u>	<u>18,000.00</u>

PALOMAR HEALTH DEVELOPMENT, INC.

October 26, 2020

Aldrich CPAs + Advisors LLP
5946 Priestly Drive, Ste. 200
Carlsbad, CA 92008

This representation letter is provided in connection with your audit of the financial statements of Palomar Health Development Inc., which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of October 22, 2020, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated August 14, 2020, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
- 3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with U.S. GAAP.

Administration

456 East Grand Avenue, Escondido, CA 92025 | T 760.740.6383 |

www.PalomarHealth.org/palomar-health-development/palomar-health-development-home

Palomar Health Development, Inc., is a California Nonprofit Corporation

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- 7) All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
 - 8) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter.
 - 9) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
 - 10) Material concentrations have been appropriately disclosed in accordance with U.S. GAAP.
 - 11) Guarantees, whether written or oral, under which the Organization is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.

Information Provided

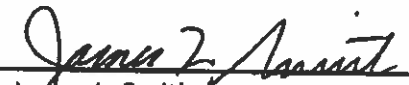
- 12) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the Organization from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of the governing board or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 13) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 14) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 15) We have no knowledge of any fraud or suspected fraud that affects the Organization and involves:
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
- 16) Other than as made known to you, we have no knowledge of any allegations of fraud or suspected fraud affecting the Organization's financial statements communicated by employees, former employees, grantors, regulators, or others.
- 17) We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

- 18) We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
- 19) We have disclosed to you the identity of the Organization's related parties and all the related-party relationships and transactions of which we are aware.
- 20) The Organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 21) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us.
- 22) Palomar Health Development, Inc. is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.
- 23) In regard to the tax services and any other nonattest services performed by you, we have –
- a) Assumed all management responsibilities.
 - b) Designated senior management who has (have) suitable skill, knowledge, or experiences to oversee the services.
 - c) Evaluated the adequacy and results of the services performed.
 - d) Accepted responsibility for the results of the services.
- 24) We have determined the functional expense allocation and have allocated expenses based on appropriate bases in accordance with Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958); Presentation of Financial Statements of Not-for-Profit Entities*.
- 25) We have reviewed all revenue streams and have determined the appropriate accounting in accordance with the revenue recognition standards Topic 606 and 958.

Signature:

Name:

Title:



James L. Smith

Controller, Palomar Health

Signature:

Name:

Title:



Sherray McCloud

Director of Finance, Palomar
Health