SPECIAL MEETING OF THE AUDIT COMMITTEE OF THE
BOARD OF DIRECTORS
THURSDAY, AUGUST 27, 2020  2:00 p.m.

PLEASE NOTE:
Participation will be virtual pursuant to
Governor Newsom’s Executive Order N-25-20
Please join the meeting from your computer, tablet or smartphone:
https://global.gotomeeting.com/join/596757629
OR Dial in using your phone: 877.309.2073; Access Code: 596757629

<table>
<thead>
<tr>
<th>Time</th>
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<tbody>
<tr>
<td>2:00</td>
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I. CALL TO ORDER

II. PUBLIC COMMENTS
   5 minutes allowed per speaker, with a cumulative total of 15 minutes per group
   For further details and policy see Request for Public Comments notice
   2:15

III. INFORMATION ITEMS
   A. None
   0  2:15

IV. OLD BUSINESS
   A. None
   0  2:15

V. MINUTES
   *A. Monday, September 9, 2019 (Addendum A – Pp6-11)
   5  2  2:20
   *B. Monday, December 2, 2019 (Addendum B – Pp12-17)
   5  3  2:25

VI. NEW BUSINESS
   *A. Election of a Chairperson and a Vice-Chairperson of the Audit Committee
   5  4  2:30

VII. PRESENTATIONS
   *A. Audit Entrance Presentation (Addendum C – Pp18-27) Aldrich CPAs & Advisors LLP
   20  5  2:50

VIII. COMMITTEE MEMBER COMMENTS/FUTURE AGENDA ITEMS
   5  —  2:55

IX. FINAL ADJOURNMENT
   2:55

Next Meeting: TBD

If you have a disability, please contact us 72 hours prior to scheduled meeting time by calling 760-740-6383 to arrange reasonable accommodations

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1 New to GoToMeeting? Get the app now and be ready when your first meeting starts: https://global.gotomeeting.com/728792797
Minutes from the September 9, 2019,
Palomar Health Development Audit Committee Meeting

TO: Audit Committee of the Palomar Health Development Board

MEETING DATE: Thursday, August 27, 2020

FROM: Tanya Howell, Committee Assistant

Background: The minutes from the inaugural meeting of the PHD Audit Committee, held on Monday, September 9, 2019, are respectfully presented for approval.

Budget Impact: N/A

STAFF RECOMMENDATION: Staff recommends approval of the minutes from the inaugural meeting of the PHD Audit Committee, held on Monday, September 9, 2019.

Motion: X

Individual Action:

Information:

Required Time:
Minutes from the December 2, 2019, Palomar Health Development Audit Committee Meeting

TO: Audit Committee of the Palomar Health Development Board

MEETING DATE: Thursday, August 27, 2020

FROM: Tanya Howell, Committee Assistant

Background: The minutes from the meeting of the PHD Audit Committee, held on Monday, December 2, 2019, are respectfully presented for approval.

Budget Impact: N/A

STAFF RECOMMENDATION: Staff recommends approval of the minutes from the meeting of the PHD Audit Committee, held on Monday, December 2, 2019.

Motion: X

Individual Action:

Information:

Required Time:
Election of Officers for CY2020

TO: Audit Committee of the Palomar Health Development Board

MEETING DATE: Thursday, August 27, 2020

FROM: Diane L. Hansen, Chief Executive Officer

Background: The Bylaws of Palomar Health Development, Inc. (“Health Development”) (ARTICLE IV, Section 4.12, as amended January 27, 2015) authorize the Board of Directors (“the Board”) to create one or more Board committees. In November 2018, the Board formally created a two-person Audit Committee, comprised of “the two Palomar Health-appointed Directors of the Board not appointed Chairperson of the Board”.

Further, ARTICLE IV, Section 4.13 requires that regular and special meetings and actions of Board Committees shall be governed by the provisions of this Article IV applicable to meetings and actions of the Board.

ARTICLE IV, Section 4.07 requires that the Board elect officers at its Annual Organizational Meeting: “One member shall be elected as Chairperson, one as Vice-Chairperson and one as Secretary. The Board may also appoint the Treasurer at the Annual Organizational Meeting.” In order to adapt Section 4.07 for pertinence to this two-person Board Committee, a Chairperson and a Vice-Chairperson should be elected.

Budget Impact: N/A

STAFF RECOMMENDATION: Staff recommends that a Chairperson and a Vice-Chairperson be elected for the Audit Committee of the Health Development Board.

Motion: X

Individual Action:

Information:

Required Time:
TO: Audit Committee of the Palomar Health Development Board

MEETING DATE: Thursday, August 27, 2020

FROM: Diane L. Hansen, Chief Executive Officer

Background: The external auditing firm of Aldrich CPAs & Advisors LLP has been retained to perform an audit of the FYE June 30, 2020, financial reports of Palomar Health Development, Inc. Representatives from the firm will present the planned scope of the audit at the meeting.

Budget Impact: Budgeted

STAFF RECOMMENDATION:

Motion: 

Individual Action: 

Information: X

Required Time:
## ADDENDUM A

### Meeting Minutes

<table>
<thead>
<tr>
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P = Present  E = Excused  C = Chair

¹ See text of minutes for names of invited guests/presenters
HEALTH DEVELOPMENT AUDIT COMMITTEE – MEETING MINUTES – MONDAY, SEPTEMBER 9, 2019

(I.A) AGENDA ITEM

<table>
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<th>FOLLOW-UP/RESP PARTY</th>
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I. CALL TO ORDER

- **Notice of Meeting** and **Full Agenda Packet** were posted at PH’s Administrative Offices and on the Palomar Health Development, Inc. (PHD) home page on the PH website on Thursday, September 5, 2019, which is consistent with legal requirements. Notice of that posting was also made that date via email to the Board and staff members.

- As there were not yet any officers for the Audit Committee, CFO Carlos Bohorquez called the meeting to order at 2:09 p.m., noting that Director Engel had sent him a message that he would be unable to attend
  
  - Although there was not a quorum present, Mr. Bohorquez stated that the meeting could move forward as scheduled since the main purpose was a review of the audit plan by the external auditing firm, and that item did not require a vote

II. PUBLIC COMMENTS

- There were no public comments

III. INFORMATION ITEMS

- None

IV. OLD BUSINESS

- None

IV. MINUTES

- None

VII. NEW BUSINESS

A. Election of a Chairperson of the Audit Committee

- This item was tabled as there wasn’t a quorum
### VII. PRESENTATIONS

#### A. Audit Entrance Presentation by Aldrich CPAs & Advisors LLP

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<td>Ms. Howell will provide a list of date/time options to the members of the Audit Committee after the meeting, so that a date for the next meeting can be confirmed</td>
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- Utilizing the presentation included in the agenda packet as Addendum A, Andy Maffia, the Partner of Aldrich CPAs & Advisors LLP in charge of the upcoming audit, provided the scope of services for the audit
  - The primary driver from the audit side is auditing of the financial records, discussions with Management and the team, all for the purpose of the auditor providing an opinion on the financials
  - On the tax side, the drivers will be the completion of Form 990 information filing with the IRS and Form 109 filing with the State Franchise Tax Board, and the RF1
  - The Scope of Services are basically reminders of what the auditors’ and Management’s respective responsibilities are with regard to the audit
  - Financial statements as provided by Management will be audited, with an opinion by Aldrich thereon
  - Internal controls are also the responsibility of Management, and hiring an outside auditor doesn’t change that responsibility
  - Nothing has changed from last year with regard to PHD’s responsibilities
  - Aldrich will be providing a couple of additional letters following this year’s audit:
    - The standard Board communication letter highlights major takeaway points from the audit process, which is a deliverable as part of the audit results
    - There will also be a letter related to internal controls, as the auditors will need to have an understanding of PHD’s systems of checks and balances
      1) Suggestions/recommendations/comments will be made if any of the controls need to be strengthened or changed
      2) The auditors will connect with the Audit Committee and Management if anything does come up, but based on their understanding of the organization at this time, Mr. Maffia doesn’t anticipate anything
  - The client service team will consist of Mr. Maffia, overseeing the audit and overall professional services, and Elsa Romero, who is also a Partner and will be overseeing things on the tax side
Following today’s pre-audit meeting, Mr. Maffia highlighted several other key dates

- Planning and interim fieldwork will commence the week of October 28th
- Completion of the fieldwork is anticipated the week of November 4th
- The dates for delivery of the draft audit report, presentation to the Audit Committee and completion of the Form 990’s have not yet been determined
  
  1) It was anticipated that some of those dates could be pinned down today, but that cannot occur due to the lack of a quorum and the need to schedule a follow-up Audit Committee meeting
  
  2) The “TBD” dates are driven by when the auditors can again meet with the Audit Committee, and with the audit itself usually taking a few weeks, Mr. Maffia suggested the first week of December

  3) Dates had been discussed and Board calendars reviewed just prior to the meeting, and Secretary Tanya Howell indicated that December 2nd and 5th at noon or December 6th at 11:30 a.m. would all work; noting that December 4th wasn’t an option because of an all-day staff meeting for Palomar Health, and December 3rd wouldn’t work as there was already a Palomar Health Governance Board Committee meeting in the Meeting Room Manager calendar on that date

  4) The auditors will send a final draft report a week prior to the date on which the Audit Committee gets scheduled, and the other “TBD” dates can be backed into once that date is known

With regard to significant audit areas and issues, Mr. Maffia stated that the auditors don’t review each transaction, they sample and focus on significant areas

- The outline provides areas on which they have focused in previous years
- There has been a change in non-profit reporting standards, and there are also a few new disclosure requirements related to non-profit reporting
  
  1) One is the way net assets are reported: The old method had 3 categories—unrestricted, temporarily restricted, and permanently restricted; and that has now been reduced to two—with donor restriction and without donor restriction
    
    a) Everything that used to be temporarily or permanently restricted is now combined into the with donor restriction category
  
  - There is another new disclosure regarding liquidity, in which the reader is given more information about what financial assets are available to use for general purposes
    
    1) Mr. Bohorquez likened this to basically specifying how liquid the assets are
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<td>2) Mr. Maffia noted that the general reader might see that there are cash funds in investments, but there is now a quantitative analysis of cash, investments and accounts receivable, then the dollar amount that’s restricted is backed out of that total to provide a clearer description of cash assets available for the next 12 months</td>
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<td>– There is also a little more disclosure as to functional expenses (e.g., utilities and salaries will be broken down by functional area)</td>
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<td>– Overall, the auditors don’t think that implementation of the standard will be overly significant, and an extra $2K of time was built into the contractual amount, but it won’t be billed unless the extra time is needed</td>
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<td>– Fraud considerations are required as a check for the risk of fraud</td>
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<td>– When errors are discovered, they must be reviewed to determine if they were merely human errors or if there was a potentially fraudulent reason they occurred</td>
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<td>– In response to an inquiry from Director Griffith about the auditors making inquiries of the Board regarding fraud, Mr. Maffia stated that those inquiries usually consisted of a few basic questions regarding whether the Board or Committee members were aware of anything of which the auditor might need to be aware</td>
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<td></td>
<td>– Aldrich gets audited every 3 years by another CPA firm in what is called a peer review (a copy of the report from 2017 was included on page 8)</td>
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<td>– The other firm reviews their past reports, procedures, etc., to ensure they are adhering to professional standards as well as their own internal quality control documents</td>
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<td>– Submitting to peer review provides clients with reassurance that the firm they’ve selected knows what they’re doing</td>
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<td>– The next peer review will be done in 2020, so it is highly likely that this audit will be part of the group to be submitted for review</td>
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<td>– Aldrich has passed peer review every time Mr. Maffia has been involved</td>
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<td>– The remainder of the package contains professional regulatory changes</td>
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<td>– Aldrich works with over 300 nonprofits, and they use information they obtain from reviewing organizations that do similar work to assist in making best-practice recommendations</td>
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<td>– Earlier this year, Aldrich acquired a technology practice to assist with cybersecurity</td>
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<td>– Revenue from Contracts with Customers</td>
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<td>– In 2014, a revenue standard was issued, with an implementation date for nonprofit entities after December 15, 2018</td>
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<td>– The standard applies to all reporting entities, provides a more condensed standard around revenue reporting, and will be in effect next year</td>
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HEALTH DEVELOPMENT AUDIT COMMITTEE – MEETING MINUTES – MONDAY, SEPTEMBER 9, 2019

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| – It won’t change how revenue is recognized, but is more about the thought process for new contracts, and Aldrich will work with the management team to ensure that PHD is following the new standards  
  o Lease accounting changes will take effect after December 15, 2019, and Aldrich will keep Management apprised on necessary steps to comply  
| | | |
| • Mr. Maffia thanked the Audit Committee for having hired Aldrich as the CPA firm, noting that they would be happy to provide status updates if requested, but from an Audit Committee perspective, “no news is good news”, and if there are no reports from the firm, the Committee can anticipate having a clean audit | | |

VI. NEW BUSINESS (Continued)

B. Scheduling of a Date/Time/Location for the Next Audit Committee Meeting

MOTION:

• Tabled due to lack of quorum – see action item regarding scheduling via email

VIII. AUDIT COMMITTEE COMMENTS/FUTURE AGENDA ITEMS

• None

IX. ADJOURNMENT

MOTION: The meeting was adjourned by Acting Chairperson Carlos Bohorquez at 2:37 p.m.

SIGNATURES:

<table>
<thead>
<tr>
<th>PHD Board Audit Committee Chair</th>
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Next Meeting: Special Meeting Prior to the Board – TBD
## Meeting Minutes

### ATTENDANCE ROSTER

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P = Present  E = Excused  C = Chair

¹ See text of minutes for names of invited guests/presenters
HEALTH DEVELOPMENT AUDIT COMMITTEE – MEETING MINUTES – MONDAY, DECEMBER 2, 2019

(I.A) AGENDA ITEM

- DISCUSSION

| CONCLUSIONS/ACTIONS |
| FOLLOW-UP/RESP PARTY |

I. CALL TO ORDER

- Notice of Meeting and Full Agenda Packet were posted at PH’s Administrative Offices and on the Palomar Health Development, Inc. (PHD) home page on the PH website on Monday, November 25, 2019, which is consistent with legal requirements. Notice of that posting was also made that date via email to the Board and staff members.

- As there were not yet any officers for the Audit Committee, Carlos Bohorquez, Chief Financial Officer, called the meeting to order at 12:02 p.m., noting that Director Griffith had indicated that he would be unable to attend, and there are no alternate provisions in the Bylaws so Chair Tom Kumura couldn’t be invited

  - Although there was not a quorum present, Mr. Bohorquez stated that the meeting could move forward as scheduled, the action items would just need to be tabled to a future meeting

II. PUBLIC COMMENTS

- There were no public comments

III. INFORMATION ITEMS

- None

IV. OLD BUSINESS

- None

IV. MINUTES

A. Minutes, Monday, September 9, 2019

  - This item was tabled as there wasn’t a quorum

VII. NEW BUSINESS

A. Election of a Chairperson of the Audit Committee

  - This item was tabled as there wasn’t a quorum

VII. PRESENTATIONS

A. Audited Financial Statements – FYE June 30, 2019

  - Utilizing the report included in the agenda packet as Addendum B, Andy Maffia, the Partner of Aldrich CPAs & Advisors, LLP, in charge of the audit, presented the draft audited financials, noting that they were being presented as a draft because the report still needs to receive approval by the Board, but also needs to have any clarifications, changes, etc., following review included in the final report.
<table>
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<tr>
<td><strong>OVERALL AUDIT PROCESS</strong></td>
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<tr>
<td>o A contract was signed initially before the audit process could begin that outlined the scope of services that would be performed, as well as that at the conclusion of the audit, the auditors expected to be able to provide an unmodified opinion</td>
</tr>
<tr>
<td>– The procedures performed by the auditors allowed them to complete the audit, and the opinion to be rendered is an unmodified opinion</td>
</tr>
<tr>
<td>o The audit was designed as a risk-based audit, focusing on the areas of most significance to the organization and the overall audit process</td>
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<tr>
<td>o The auditors didn’t look at every transaction</td>
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<tr>
<td>o During planning, the audit team looks at the internal controls of the organization, not for purposes of providing an opinion on them, but so the audit can follow those same controls and checks and balances</td>
</tr>
<tr>
<td>o Professional standards require that if any internal controls need improvement, the auditors would be required to report those to Management, and Mr. Maffia stated that he was pleased to report that there were no significant deficiencies or material weaknesses</td>
</tr>
<tr>
<td>– In response to an inquiry by Director Engel, Mr. Maffia stated that a finding of no deficiencies was not an opinion on the checks and balances or internal controls – it was essentially saying that if there were deficiencies regarding the financial statement audit (e.g., if the audit team felt that checks and balances related to cash receipts or disbursements would create a material misstatement of the financials because of that deficiency), that would be a deficiency that would have to be reported</td>
</tr>
<tr>
<td>1) An opinion on the internal controls would be a statement similar to, “Your internal controls are adequately put together and you have your processes in place”, and that would be covered under a completely different type of audit, covered by a separate engagement which included that full scope of service</td>
</tr>
<tr>
<td>o Mr. Maffia further stated that the only reason he was here delivering the results was because Management had been performing their duties and were very cooperative and helpful in providing the information as requested during the audit</td>
</tr>
<tr>
<td>• As of June 30, 2019, Palomar Health Development implemented the new non-profit reporting standard, required for all non-profit organizations with fiscal year ends on or after December 31, 2018, and Mr. Maffia will point out areas that have changed as he reviews the financial statements</td>
</tr>
<tr>
<td>• Page 14 contains the Independent Auditors’ Report, which is the unmodified opinion, essentially, what the auditors thought they were going to be able to render, they were able to do</td>
</tr>
<tr>
<td>o The Emphasis-of-Matter Regarding Economic Dependency relates to the relationship between Palomar Health Development and Palomar Health, and has been included every year for which Aldrich has been the auditing firm</td>
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<tr>
<td>– It indicates that there is a relationship with the larger entity of Palomar Health, as well as an economic dependence thereon</td>
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<tr>
<td>– In response to an inquiry by Director Engel, Mr. Maffia stated that he believed Aldrich had been the auditor for Palomar Health Development for the past 5 years</td>
</tr>
<tr>
<td>• The Emphasis-of-Matter Regarding a Change in Accounting Principle on Page 15 lets the reader know that the new reporting standard was adopted, noting that Palomar Health Development elected not to show a comparative statement of functional expense, which was allowable under the standard</td>
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</tbody>
</table>
HEALTH DEVELOPMENT AUDIT COMMITTEE – MEETING MINUTES – MONDAY, DECEMBER 2, 2019

(I.A) AGENDA ITEM

- DISCUSSION
  - Page 16 is the Statements of Financial Position, which would be the same as a balance sheet for a for-profit organization
    - Normally the term at the bottom would be “Net Assets”, but since the overall position is a deficit, the term “Net Deficit” is used
      - Over the years, the deficit position has been much larger and has been decreasing, and if that trend continues and it becomes positive, the Emphasis-of-Matter Regarding Economic Dependency could potentially be removed
    - There is new terminology under the new standard:
      - The previous terminology of “Unrestricted” is now “Without Donor Restriction”
      - The previous terms of “Temporarily or Permanently Restricted” are now “With Donor Restriction”
      - The purpose was to clarify that the restrictions were related to the donor’s intent
  - Pages 17 & 18 are the Statements of Activities for 2019 and 2018, which is a breakdown of revenues and expenses for each of the years
    - Again, the terminology now has “Without Donor Restriction” and “With Donor Restriction” as column labels – breakdown of revenues and expenses
    - In response to an inquiry from Director Engel, Mr. Bohorquez stated that the revenues come from the grants to Palomar Health Development from the County and other agencies to support the programs at Palomar Health
    - He further stated that the bottom line is that the organization supported its activities from the grant revenue, and Mr. Maffia stated that the Changes in Net Assets of $202K would be the same as the Net Income or Profit/Loss for a for-profit entity
  - Page 19: This is the new statement implemented this year, the Statement of Functional Expenses, details how much was spent on the Program Services side and how much was spent for General and Administrative costs
    - $1.6M was spent on salaries for those directly working in the programs
    - General and Administrative costs are overhead costs
    - Donors will look at the percentage of program expenses vs. total expenses to see how many of their donated dollars are going toward the mission of the organization, with a higher percentage usually being a better indicator for the organization
      - The percentage for Palomar Health Development is in the 86% range, which is very healthy for a non-profit organization, which typically should run at 75% or above on the program side
      - Some foundations or other philanthropic-type organizations might have different percentages
    - This is the statement previously noted as not comparative, as it is just for 2019
  - Page 20: Statements of Cash Flows for 2018 and 2019, shows the overall effect on cash accounts for the last 2 years
    - Net Cash Provided (Used) By Operating Activities shows a positive influx of $300
    - Cash Flows Used by Financing Activities shows the payments to Palomar Health on the Line of Credit in the amount of $120K per year
    - Director Engel stated that Palomar Health Development has revenues that are exceeding expenses and is, therefore, able to decrease the debt that it’s carrying, and Mr. Maffia noted that was a good analysis

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<tr>
<td>Again, the terminology now has “Without Donor Restriction” and “With Donor Restriction” as column labels – breakdown of revenues and expenses</td>
<td></td>
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<tr>
<td>In response to an inquiry from Director Engel, Mr. Bohorquez stated that the revenues come from the grants to Palomar Health Development from the County and other agencies to support the programs at Palomar Health</td>
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<tr>
<td>He further stated that the bottom line is that the organization supported its activities from the grant revenue, and Mr. Maffia stated that the Changes in Net Assets of $202K would be the same as the Net Income or Profit/Loss for a for-profit entity</td>
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<tr>
<td>Page 19: This is the new statement implemented this year, the Statement of Functional Expenses, details how much was spent on the Program Services side and how much was spent for General and Administrative costs</td>
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<tr>
<td>$1.6M was spent on salaries for those directly working in the programs</td>
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<tr>
<td>General and Administrative costs are overhead costs</td>
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<tr>
<td>Donors will look at the percentage of program expenses vs. total expenses to see how many of their donated dollars are going toward the mission of the organization, with a higher percentage usually being a better indicator for the organization</td>
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<tr>
<td>The percentage for Palomar Health Development is in the 86% range, which is very healthy for a non-profit organization, which typically should run at 75% or above on the program side</td>
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<tr>
<td>Some foundations or other philanthropic-type organizations might have different percentages</td>
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<tr>
<td>This is the statement previously noted as not comparative, as it is just for 2019</td>
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<tr>
<td>Page 20: Statements of Cash Flows for 2018 and 2019, shows the overall effect on cash accounts for the last 2 years</td>
<td></td>
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<tr>
<td>Net Cash Provided (Used) By Operating Activities shows a positive influx of $300</td>
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<tr>
<td>Cash Flows Used by Financing Activities shows the payments to Palomar Health on the Line of Credit in the amount of $120K per year</td>
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<tr>
<td>Director Engel stated that Palomar Health Development has revenues that are exceeding expenses and is, therefore, able to decrease the debt that it’s carrying, and Mr. Maffia noted that was a good analysis</td>
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<tr>
<td>DISCUSSION</td>
<td>CONCLUSIONS/ACTIONS</td>
<td>FOLLOW-UP/RESP PARTY</td>
</tr>
<tr>
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<tr>
<td>Pages 21-26 contain the Notes to the Financial Statements, and there are several new disclosures</td>
<td></td>
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<tr>
<td>o Page 21:</td>
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<tr>
<td>– <a href="#">New Accounting Pronouncement</a> is merely another indication that the new accounting standard was adopted</td>
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<tr>
<td>– <a href="#">Financial Statement Presentation</a> was updated with terminology that adheres to the new standard</td>
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<tr>
<td>– <a href="#">Functional Expense Allocations</a> provides additional disclosure as to the various expenses that do have allocations between Program and General and Administrative</td>
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<tr>
<td>o All the topics on Page 22 contain similar disclosures as in prior years, updated to reflect the language/terminology definitions related to the new accounting standards</td>
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<tr>
<td>o The information on Page 23 provides additional statements about <a href="#">Future Accounting Standards</a> that will be applicable and effective in future years</td>
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<tr>
<td>– The first and last paragraphs are related to revenue recognition</td>
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<tr>
<td>– The middle paragraph has to do with leases</td>
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<tr>
<td>o Note 3 on Page 24 is a new note regarding liquidity, providing information for the reader regarding how much cash was available to pay the bills (e.g., what financial assets the organization has, how much is actually available for general use in the next year, and the net total available to meet cash needs)</td>
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<tr>
<td>– The cash is sitting in a money market or a checking account</td>
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<tr>
<td>o In response to an inquiry about the name of the program in the second paragraph of Note 2, it was confirmed that “First Five First Steps” is accurate</td>
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<tr>
<td>o Note 4 on Page 25 is a net asset disclosure that identifies the various donor restrictions that are still available, as well as those that have been released from restrictions by incurring expenditures that satisfied those restrictions</td>
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<tr>
<td>o Note 5 discusses the related party transactions with Palomar Health (e.g., the Financial and Accounting Services Agreement, the Line of Credit [LoC] and an Operating Lease for office space)</td>
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<tr>
<td>– The Maturity of the LoC is January of 2021, and the amount due at the end of the year was $2.1M</td>
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<tr>
<td>– There was some discussion regarding the initial approved amount of the LoC, which Aimee Ebner, Financial Services Manager, believed was $3.4M, approved in 2005</td>
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<tr>
<td>1) Ms. Ebner further stated that Health Development is not drawing on the LoC, just paying it down</td>
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<tr>
<td>– Director Engel requested further confirmed information regarding the approved amount, how it had been approved (e.g., by Palomar Health and/or Palomar Health Development Board), and whether there was a threshold that would allow Palomar Health Development to draw further monies on the LoC</td>
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<tr>
<td>o Mr. Maffia ended his presentation, stating that overall, it was a smooth and clean audit</td>
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</tbody>
</table>
**HEALTH DEVELOPMENT AUDIT COMMITTEE – MEETING MINUTES – MONDAY, DECEMBER 2, 2019**

(I.A) AGENDA ITEM

<table>
<thead>
<tr>
<th>DISCUSSION</th>
<th>CONCLUSIONS/ACTIONS</th>
<th>FOLLOW-UP/RESP PARTY</th>
</tr>
</thead>
</table>

VIII. AUDIT COMMITTEE COMMENTS/FUTURE AGENDA ITEMS

- None

IX. ADJOURNMENT

**MOTION:** The meeting was adjourned by Acting Chairperson Carlos Bohorquez at 12:43 p.m.

**SIGNATURES:**

| PHD Board Audit Committee Chair | PHD Board Audit Committee Assistant | Tanya Howell |

Next Meeting: TBD based on dates for FYE June 30, 2020, audit
ADDENDUM C

Palomar Health Development, Inc.

Meeting with the Audit Committee and Management

For the Year Ended June 30, 2020
August 27, 2020

To the Audit Committee and Management
Palomar Health Development, Inc.

Dear Committee Members and Management,

We are pleased to discuss with you our audit service plans for Palomar Health Development, Inc. (PHD) for the year ended June 30, 2020.

The purpose of this discussion is to provide you with the required communications regarding the auditor’s responsibility, the scope of the audit, and the timing of the audit.

We would also like to discuss current year developments at PHD, as well as the risk factors, professional and regulatory changes, and other factors that will be included in our planning for the audit and that will impact the performance of our audit.

We welcome any questions or input you may have about this audit service plan. We look forward to working with you again this year and consider PHD to be an important client for our audit practice.

Very truly yours,

Andy Maffia, CPA
Aldrich CPAs + Advisors LLP
SCOPE OF SERVICES
We are engaged to audit the financial statements of Palomar Health Development (Organization) for the year ended June 30, 2020. Professional standards require that we provide you with the following information related to our audit. We would also appreciate the opportunity to meet with you to discuss this information further since a two-way dialogue can provide valuable information for the audit process.

Our Responsibility under U.S. Generally Accepted Auditing Standards
As stated in our engagement letter dated August 14, 2020, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we will consider the internal control of the Organization. Such considerations will be solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope, Timing of the Audit, and Other
An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the Organization and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Organization or to acts by management or employees acting on behalf of the Organization. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

Andy Maffia is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

This information is intended solely for the use of the board of directors and management of Palomar Health Development and is not intended to be, and should not be, used by anyone other than those specified parties.
SCOPE OF SERVICES, CONTINUED

Our services include:

- Financial statement audit and opinion on PHD’s financial statements as of June 30, 2020.
- As considered necessary under professional standards, and based on our judgment, a management letter commenting upon the internal controls of PHD, fiscal management practices, and other observations resulting from the audit.
- A letter to the Board of Directors and Audit Committee, identifying significant accounting policies, management judgments and accounting estimates, audit adjustments and other matters discussed during the audit.
- Meetings with the Board of Directors and/or Audit Committee prior to and at the conclusion of the audit, and at other times, as deemed appropriate.
- Completion of the information returns (form 990)

CLIENT SERVICE TEAM

Aldrich uses a client service team to bring a broad range of competencies to our engagements. We will assign a client service team that will lead our services and the additional staff needed for your requirements. The client service team will include:

- Andy Maffia, Partner – Responsible for all professional services
- Elsa Romero, Partner – Responsible for tax and consulting services
- Kristen Guzman, Senior Manager – Responsible for overseeing the completion of the audit
- Rachelle Jumper, Manager – Responsible for the completion of the tax filings

All members will be actively involved and available for the duration of the assigned services, and additional staff members will be assigned and available as needed. All staff have significant experience with not-for-profit organizations. Should there be any management staff changes we will discuss them with you prior to implementation.

SERVICE TIMELINE

We will work with management to determine a detailed timeline for our audit procedures. Our general timing is as follows:

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
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<tbody>
<tr>
<td>Pre-audit meeting with the Audit Committee and management to obtain further understanding of PHD and develop a work plan, including discussion of the audit plan</td>
<td>August 27, 2020</td>
</tr>
<tr>
<td>All requested information to be provided to Aldrich</td>
<td>September 14, 2020</td>
</tr>
<tr>
<td>Planning and interim fieldwork</td>
<td>Week of September 14, 2020</td>
</tr>
<tr>
<td>All selections to management</td>
<td>No later than September 21, 2020</td>
</tr>
<tr>
<td>Selection documentation to Aldrich</td>
<td>No later than September 25, 2020</td>
</tr>
<tr>
<td>Complete fieldwork</td>
<td>Week of September 28, 2020</td>
</tr>
<tr>
<td>Delivery of audit report draft to PHD</td>
<td>October 14, 2020</td>
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<tr>
<td>Presentation of the audit results to the Audit Committee</td>
<td>TBD</td>
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<tr>
<td>Completion of the information returns (990)</td>
<td>TBD</td>
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</table>
COMMITMENTS

Adhering to the agreed upon timeline will not only make the audit efficient, but it will allow us to meet your deadlines while minimizing the burden on your team. If there are delays in providing Aldrich the requested information on those dates, please connect with us immediately. We will work with your team to adjust the schedule which could include delays in performing audit procedures, adjusting the due date of the report, and/or additional fees.

SIGNIFICANT AUDIT AREAS AND ISSUES

We will focus our audit efforts on the following significant areas:

- Cash
- Grants receivable
- Revenue recognition cycle
- Net asset restrictions
- Payroll and related liabilities
- Functional expense allocations
- Controls associated with significant transaction cycles, including revenues, expenditures, and payroll

The year ended June 30, 2020 is the year in which ASU 2018-08 Grants and Contributions standard is required to be implemented. ASC 606 Revenue Recognition standards were to be implemented for the year ended June 30, 2020 but the implementation date was extended another year. Early adoption is permitted should management choose to implement both standards this year. These standard updates will require additional review and documentation of the revenue cycle and we will be working with management on the accounting changes and the required disclosures and will review those with you in the closing meeting.

FRAUD CONSIDERATIONS

Our professional standards require us to consider the risk of fraud. As it relates to our audit, fraud includes the misappropriation of assets or fraudulent financial reporting. Procedures we will perform relating to fraud considerations include:

- Reviewing internal controls for susceptibility to fraud.
- Considering the control environment and pressures/incentives to commit fraud.
- Questioning employees at various levels within PHD regarding fraud.
- Our professional standards also require us to make inquiries of the board of directors, or a representative thereof, related to fraud concerns.
September 6, 2017

To the Shareholders of Aldrich CPAs + Advisors LLP
and the Peer Review Committee of the Oregon Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Aldrich CPAs + Advisors LLP (the firm) in effect for the year ended April 30, 2017. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards). A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm’s Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer’s Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm’s compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under Government Auditing Standards, including compliance audits under the Single Audit Act and audits of employee benefit plans.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Aldrich CPAs + Advisors LLP in effect for the year ended April 30, 2017, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. Aldrich CPAs + Advisors LLP has received a peer review rating of pass.

[Signature]
Certified Public Accountants
PROFESSIONAL AND REGULATORY CHANGES

The following items relate to changes throughout the not-for-profit environment for the benefit of the audit committee and management:

State of Nonprofits

COVID-19

COVID-19 has changed the landscape for many nonprofit organizations. From where we work, to how we communicate, to the way we serve the general public, operations have been disrupted and may forever be changed. Challenges with funding have left organizations in an unenviable position to make difficult cost cutting decisions. Research and time has been necessary understanding various programs made available through the Federal stimulus packages. Overall the epidemic has pulled many organizations’ attention away from providing program services.

Employment and Recruiting

The persistence of low unemployment rates across the United States is significantly affecting the availability and stability of staffing for the finance functions of many NFPs. The high demand for and low supply of qualified candidates spans all levels of experience and expertise. NFPs, especially those paying below-market salaries, are often unable to fill key finance roles.

Risks to the NFP include the following:
- Lack of capacity to maintain basic financial systems
- Inadequate staff competency for the complexity of the organization
- Frequent turnover affecting finance department and organization-wide morale
- Understaffed finance departments vulnerable to inadequate segregation of duties and other internal control concerns

Possible strategies to mitigate risk include the following:
- Increase investment in staff salaries, professional development opportunities, and building progressive organizational cultures that attract and retain quality finance staff
- When appropriate and possible, seek outsourced accounting and finance resources to fill gaps in the finance function, avoid overburdening current in-house staff, and shore up internal controls
- Involve other nonfinance department staff in less technical processes throughout transaction cycles to provide adequate coverage and segregation of duties

Political Activities

With 2020 being an election year it is crucial that NFPs understand what is allowed and not allowed for political activities. A risk for NFPs is properly distinguishing between political campaign activities, which are not allowed for exempt organizations, and legislative activities, lobbying, voter registration, and voter engagement, all of which are permissible (with some limitations) for NFPs. For those permitted activities, there are also important differences between how and the extent to which 501(c)(3) and 501(c)(4) organizations may engage in legislative, lobbying, and voter engagement activities.

NFPs may freely engage in lobbying as long as the related expenses comprise only an “insubstantial” amount of the organization's total expenditures. Each 501(c)(3) organization must determine the best strategy for documenting that its level of lobbying activity is insubstantial in comparison to its overall mission-related activity. The nonprofit must know its own situation well enough to decide whether the expenditure test or the substantial part test is most fitting, which includes whether to take the 501(h) election. If an organization engages in any of these activities they must be able to properly track and report the expenses.
PROFESSIONAL AND REGULATORY CHANGES, CONTINUED

Outsourcing
With ever-increasing pressure to cut costs, many NFPs have turned to outsourcing or shared-service functions for assistance in areas such as fundraising, investing, and financial reporting. However, delegation of operational functions does not relieve an NFP of its fiduciary or internal control responsibilities. The NFP’s internal control framework should be extended to third-party vendors through a service level agreement, which will clarify responsibilities, establish expectations for timeliness of services, outline acceptable response times for incidents of various severity, and pre-define key performance indicators the vendor agrees to meet. This will enable the NFP to regularly monitor the vendor, which may include ascertaining any policies, procedures, or system and organization control reports available from the vendor providing the outsourced functions. Cybersecurity policies and agreements with outsourced vendors are a must, as are monitoring and reporting of any incidents. It is critical that NFPs understand that they are accountable for their outsourced vendors’ mistakes, errors, and deficiencies.

Cybersecurity
In 2018, reported data breaches once again made history. The Marriott/Starwoods breach in November 2018 is the second largest breach ever reported, second only to the Yahoo breach in 2014. However, an organization does not need to be the size of Yahoo or Marriott to be targeted. From a cybersecurity perspective, two types of organizations exist: those that have been breached and those that do not realize they have been breached. Cybersecurity adversaries (also known as “bad actors”) are after one of the most valuable commodities in the world — data. Bad actors are using many methods to identify potential data custodians, and NFPs, whether large or small, are no exception. NFPs obtain and retain all types of valuable data about their donors, customers, and clients. Personally identifiable information, protected health care information, payment card information, and information about employees and the organization itself can be considered extremely valuable on the dark web.

Is there anything NFPs can do? Fortunately, there are many things NFPs can do that do not cost a fortune. User awareness is one of the most effective methods for preventing bad actors from getting to personal or corporate data. Developing a culture that emphasizes security can stop many attempts to steal information. The following are a few awareness principles to instill in all users:

- Bad actors are a daily threat. Every member of an organization is responsible for maintaining good IT security habits.
- Be leery of emails. If the email is unexpected, asks for user credentials, or requests an action that does not make sense, users should ask IT staff before proceeding.
- Verify the sender. If users receive a link or document that is unexpected, they should call the sender and verify legitimacy.
- Be very careful opening emails on a smart phone. It is usually harder to spot a phishing email on a phone than on a computer’s email application.
- Have a password strategy. Use complex pass-phrases that are unique to each application or website. Use a password manager to keep track of passwords. Change passwords on a regular basis.
- Develop a culture of security. Talk about security best practices with new hires and existing employees on an ongoing basis. Do not adopt a “one and done” culture.
- Have a plan for employees to notify designated personnel and react quickly when an attack is discovered or suspected. The longer a bad actor has access to a system, the costlier it will be.
PROFESSIONAL AND REGULATORY CHANGES, CONTINUED

Management Discussion and Analysis (MD&A)

Nonprofit organizations have a lot of flexibility in reporting because the standard setters understand the diversity within the nonprofit community. One of the items that they considered as part of the nonprofit reporting standard was requiring an MD&A section in the financial statements for all NFP organizations. This was removed from their agenda and was not included in the standard but is available should a NFP organization choose to include it. MD&A allows management to tell the story of the organization and explain the programs behind the numbers giving context to the users of the financial statements. As there is no specific guidance or requirements for MD&A reporting, each nonprofit will be able to tell their story in a way that is unique to them. If this is something that you would like to discuss further for your Organization's financial statements please contact the audit team.

Exchange vs. Contribution Updated Guidance

In June 2018, FASB issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, to clarify and improve the accounting guidance related to grants and contracts. Many individuals working with NFPs noted long-standing difficulty and diversity in practice in characterizing grants and similar contracts with resource providers as either reciprocal (exchange) transactions or nonreciprocal (contribution) transactions. The issuance of the revenue from contracts with customers ASU placed a renewed focus on this accounting difficulty because this standard adds new disclosure requirements for exchange transactions and eliminates from GAAP existing limited industry guidance about exchange transactions for NFPs.

ASU No. 2018-08 clarifies and improves the guidance in GAAP related to two accounting issues: (a) how to distinguish reciprocal (exchange) transactions from nonreciprocal (contribution) transactions and (b) how to determine whether a contribution is conditional or unconditional.

For recipients of contributions, the guidance in the ASU is effective on the following dates based on whether the recipient is a public entity or other entity:
- Public entities — Effective for annual periods beginning after June 15, 2018, including interim periods within those annual periods
- All other entities — Effective for annual periods beginning after December 15, 2018, and interim periods beginning after December 15, 2019

For resource providers of contributions, the guidance in the ASU is effective on the following dates based on whether the resource provider is a public entity or other entity:
- Public entities — Effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods
- All other entities — Effective for annual periods beginning after December 15, 2019, and interim periods beginning after December 15, 2020

Revenue Recognition Standard

FASB’s issuance of ASU No. 2014-09 titled Revenue from Contracts with Customers, represent a single, global, principles-based revenue recognition model. For NFPs that are considered public entities, the amendments were effective for annual reporting periods beginning after December 15, 2017. For all other NFPs, the amendments are being applied for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. In May 2020 the FASB issued an update that allows for implementation of ASU 2014-09 to be delayed until the year ending after December 15, 2020 for those entities that had not yet adopted it.
PROFESSIONAL AND REGULATORY CHANGES, CONTINUED

*Exchange vs. Contribution Updated Guidance, continued*

The new revenue recognition model replaces virtually all existing guidance for revenue recognition of exchange transactions. The guidance affects all entities — public, private, and NFP — that enter into contracts with customers to transfer goods or services or nonfinancial assets, unless those contracts are within the scope of other standards (such as for contributions, leases, financial instruments, or insurance contracts). The extent of the impact on an entity will differ depending on various factors such as the transaction, the specific legal terms and conditions of the contract, its complexity, and the industry in which the entity operates. In some cases, there may be no change to the amount and timing of revenue recognition. In other cases, there will be changes, and those changes could be significant. New qualitative and quantitative disclosure requirements about revenue and contracts with customers will affect almost all entities.

*Lease Accounting* - FASB issued ASU No. 2016-02 in February 2016. This standard replaces FASB ASC 840, which was more than 40 years old. With the goal of increasing comparability and transparency, the new leases standard essentially moves operating lease obligations from the footnotes to the statement of financial position. Prior to ASU No. 2016-02, lessees recognized only lease obligations (liabilities) and related assets for capital leases. This left financial statement users lacking valuable information regarding an NFP’s true operating costs and often required them to conduct further analysis of footnote disclosures to ascertain the costs of operating leases.

Private companies and private not-for-profit organizations may apply the new leases standard for fiscal years beginning after December 15, 2021, and to interim periods within fiscal years beginning after December 15, 2022. Early application is permitted.

Bringing operating leases onto the entity’s statement of financial position could make a significant difference in the numbers that an organization is reporting. However, many lessees will be able to meet the new reporting and disclosure requirements using existing systems and processes, keeping additional costs of providing the required information at bay.