

RESOLUTION NO. 08.10.12(04)-1

RESOLUTION OF THE BOARD OF DIRECTORS OF
PALOMAR POMERADO NORTH COUNTY HEALTH DEVELOPMENT, INC.
AUTHORIZING ACCEPTANCE OF THE INDEPENDENT AUDIT OF THE
ANNUAL FINANCIAL REPORT OF PALOMAR POMERADO NORTH
COUNTY HEALTH DEVELOPMENT, INC., FOR FISCAL YEAR END 2011
AS THE ANNUAL REPORT

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

WHEREAS, Palomar Pomerado North County Health Development, Inc. [Health Development] is required, pursuant to Section 54954 of the California Government Code and Article VII, Section 7.09 of the 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 2011 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 Health Development that the Annual Financial Report for Fiscal Year End 2011 (Audited) of Palomar Pomerado North County Health Development, Inc., a California Nonprofit Public Benefit Corporation, as augmented by the report of independent accountants of AKT, LLP, of Carlsbad, California, dated March 7, 2012, and adopted in the form attached hereto, is hereby accepted as the Annual Report of Health Development.

PASSED AND ADOPTED at the meeting of the Board of Directors of Health Development, held on August 10, 2012, by the following vote:

AYES: Covert, Greer, Hemker, Krider

NOES:

ABSENT: Rivera

ABSTAINING:

DATED: August 10, 2012

APPROVED:

ATTESTED:



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



Marcelo Rivera, MD, Secretary
Board of Directors
Palomar Pomerado North County
Health Development, Inc.



**PALOMAR POMERADO NORTH
COUNTY HEALTH DEVELOPMENT,
INC.**

Financial Statements

Years Ended June 30, 2011 and 2010



PALOMAR POMERADO NORTH COUNTY HEALTH DEVELOPMENT, INC.

Financial Statements

Years Ended June 30, 2011 and 2010

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	5
Notes to Financial Statements	6



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Palomar Pomerado North County Health Development, Inc. (a nonprofit organization) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Palomar Pomerado North County Health Development, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palomar Pomerado North County Health Development, Inc. as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

AKT LLP

Carlsbad, California
March 7, 2012

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PORTLAND, OR | SALEM, OR | CARLSBAD, CA | ESCONDIDO, CA | SAN DIEGO, CA | ANCHORAGE, AK
AKT LLP

PALOMAR POMERADO NORTH COUNTY HEALTH DEVELOPMENT, INC.**Statements of Financial Position**

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current Assets:		
Cash	\$ 721,481	\$ 654,843
Grants receivable	522,815	551,244
Prepaid expenses	<u>2,128</u>	<u>2,331</u>
Total Current Assets	1,246,424	1,208,418
Property and Equipment, net of accumulated depreciation	<u>804</u>	<u>2,274</u>
Total Assets	<u>\$ 1,247,228</u>	<u>\$ 1,210,692</u>
LIABILITIES AND NET DEFICIT		
Current Liabilities:		
Current portion of note payable - Palomar Pomerado Health	\$ 120,000	\$ -
Accounts payable	433,522	519,602
Accrued expenses	15,500	21,000
Deferred revenue	95,720	128,007
Line of credit - Palomar Pomerado Health	<u>-</u>	<u>3,415,110</u>
Total Current Liabilities	664,742	4,083,719
Note Payable, net of current portion - Palomar Pomerado Health	<u>2,796,107</u>	<u>-</u>
Total Liabilities	3,460,849	4,083,719
Net Assets (Deficit):		
Unrestricted	(2,643,184)	(2,911,967)
Temporarily restricted	<u>429,563</u>	<u>38,940</u>
Total Net Deficit	<u>(2,213,621)</u>	<u>(2,873,027)</u>
Total Liabilities and Net Deficit	<u>\$ 1,247,228</u>	<u>\$ 1,210,692</u>

See accompanying notes to financial statements.

PALOMAR POMERADO NORTH COUNTY HEALTH DEVELOPMENT, INC.**Statement of Activities**Year Ended June 30, 2011

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

PALOMAR POMERADO NORTH COUNTY HEALTH DEVELOPMENT, INC.

Statement of Activities

Year Ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support:			
Contract revenue	\$ 3,272,309	\$ -	\$ 3,272,309
Contributions	-	66,645	66,645
Other income	329	-	329
Net assets released from restrictions, satisfaction of program restrictions	<u>27,705</u>	<u>(27,705)</u>	<u>-</u>
Total Revenue and Support	3,300,343	38,940	3,339,283
Expenses:			
Program services	2,820,830	-	2,820,830
General and administrative	<u>369,058</u>	<u>-</u>	<u>369,058</u>
Total Expenses	<u>3,189,888</u>	<u>-</u>	<u>3,189,888</u>
Decrease in Net Deficit	110,455	38,940	149,395
Net Deficit, beginning	<u>(3,022,422)</u>	<u>-</u>	<u>(3,022,422)</u>
Net Assets (Deficit), ending	<u>\$ (2,911,967)</u>	<u>\$ 38,940</u>	<u>\$ (2,873,027)</u>

PALOMAR POMERADO NORTH COUNTY HEALTH DEVELOPMENT, INC.**Statements of Cash Flows**

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Increase in net assets	\$ 659,406	\$ 149,395
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	1,470	3,015
Note payable discount - Palomar Pomerado Health	(469,485)	-
Changes in operating assets and liabilities:		
Grants receivable	28,429	273,190
Prepaid expenses	203	1,695
Accounts payable	(86,080)	(230,334)
Accrued expenses	(5,500)	(15,346)
Deferred revenue	(32,287)	(172,684)
Net Cash Provided by Operating Activities	<u>96,156</u>	<u>8,931</u>
Cash Flows from Financing Activities:		
Increase in line of credit - Palomar Pomerado Health	1,600	150,186
Payments on line of credit - Palomar Pomerado Health	(12,122)	(135,050)
Increase in note payable - Palomar Pomerado Health	1,082	-
Payments on note payable - Palomar Pomerado Health	(20,078)	-
Net Cash Provided (Used) by Financing Activities	<u>(29,518)</u>	<u>15,136</u>
Net Increase in Cash	66,638	24,067
Cash, beginning	<u>654,843</u>	<u>630,776</u>
Cash, ending	<u>\$ 721,481</u>	<u>\$ 654,843</u>
Supplemental Disclosure of Cash Flow Information:		
Line of credit converted to note payable	<u>\$ 3,404,558</u>	<u>\$ -</u>

PALOMAR POMERADO NORTH COUNTY HEALTH DEVELOPMENT, INC.

Notes to Financial Statements

Years Ended June 30, 2011 and 2010

Note 1 - Organization and Summary of Significant Accounting Policies

Nature of Activities

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

Use of Estimates

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

Financial Statement Presentation

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

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Organization may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

The Organization had no permanently restricted net assets during the years ended June 30, 2011 and 2010.

Receivables

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

Property and Equipment

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

Revenue Recognition

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

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

PALOMAR POMERADO NORTH COUNTY HEALTH DEVELOPMENT, INC.

Notes to Financial Statements

Years Ended June 30, 2011 and 2010

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

Contributed Materials and Services

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

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

Fair Value Measurements

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

The carrying value of cash, receivables, and payables approximate fair values as of June 30, 2011 and 2010, 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, 2011 and 2010, no such unrelated business income was reported and, therefore, no provision for income taxes has been made.

The Organization follows the provisions of uncertain tax positions as addressed in FASB Accounting Standards Codification 740-10-65-1.

The Organization recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. There are no amounts accrued in the financial statements related to uncertain tax positions for the years ended June 30, 2011 and 2010.

The Organization files informational and income tax returns in the United States and various state and local jurisdictions. The Organization's Federal income tax and informational returns for the years ended June 30, 2011 and 2010 are subject to examination by the Internal Revenue Service, generally for three years after the returns were filed. State and local jurisdictions have statutes of limitation that generally range from three to five years.

Subsequent Events

The Organization has evaluated subsequent events through March 7, 2012, which is the date the financial statements were available to be issued.

Note 2 - Functional Allocation of Expenses

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

PALOMAR POMERADO NORTH COUNTY HEALTH DEVELOPMENT, INC.

Notes to Financial Statements

Years Ended June 30, 2011 and 2010

Note 3 - Concentrations of Credit Risk

Cash

The Organization maintains its cash in bank deposit accounts that are either insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor or certain non-interest bearing accounts that are fully insured by the FDIC. At June 30, 2011, the Organization's total uninsured cash balance was \$55,885.

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 64% of the Organization's contract revenue for the year ended June 30, 2011 and 48% of the Organization's grants receivable at June 30, 2011. The Program has been extended for the first incremental term beginning July 1, 2011 and ending June 30, 2012. The budget for this period will be approximately \$1,700,000.

For the year ended June 30, 2010, the Welcome Home Baby Program, funded by the Commission, provided 75% of the Organization's contract revenue and 54% of the Organization's grants receivable at June 30, 2010. The Welcome Home Baby Program ended on June 30, 2010.

Economic Dependency

The Organization is economically dependent on PPH.

Note 4 - Property and Equipment

Property and equipment consist of the following:

	<u>2011</u>	<u>2010</u>
Equipment	\$ 13,931	\$ 13,931
Software	15,009	15,009
	<u>28,940</u>	<u>28,940</u>
Less accumulated depreciation	<u>(28,136)</u>	<u>(26,666)</u>
	<u>\$ 804</u>	<u>\$ 2,274</u>

Note 5 - Net Assets

At June 30, 2011, temporarily restricted net assets are available for interest on the note payable to PPH. At June 30, 2010, temporarily restricted net assets were available for the Student Health Career Navigator.

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

	<u>2011</u>	<u>2010</u>
Interest on note payable to Palomar Pomerado Health	\$ 39,922	\$ -
Student Health Career Navigator	<u>38,940</u>	<u>27,705</u>
	<u>\$ 78,862</u>	<u>\$ 27,705</u>

PALOMAR POMERADO NORTH COUNTY HEALTH DEVELOPMENT, INC.

Notes to Financial Statements

Years Ended June 30, 2011 and 2010

Note 6 - Related Party Transactions

Purchases

The Organization reimburses PPH for all payroll services provided as well as other expenses. At June 30, 2011 and 2010, the amount due to PPH included in accounts payable was \$325,799 and \$388,494, respectively.

Line of Credit and Note Payable

The Organization had a line of credit from PPH that expired on January 24, 2011. The line of credit incurred interest at 2.5% above the LIBOR (3.28% at January 24, 2011) and was adjusted quarterly. Interest expense for the line of credit was \$67,878 and \$127,384 for the years ended June 30, 2011 and 2010, respectively.

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

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

Scheduled maturities of the note payable are as follows:

<u>Year ending June 30,</u>	
2012	\$ 120,000
2013	120,000
2014	120,000
2015	120,000
2016	<u>2,865,670</u>
	3,345,670
Less unamortized discount	<u>(429,563)</u>
	<u>\$ 2,916,107</u>

Note 7 - Operating Leases

The Organization leases office space and clinical support services in Escondido for the Program. The initial lease term was from July 1, 2010 to January 31, 2011, and renews for three consecutive one year terms provided that the Organization does not terminate the agreement. Rent expense was \$18,302 and \$10,063 for the years ended June 30, 2011 and 2010, respectively.