RESOLUTION NO. 11.05.18(04)-1

RESOLUTION OF THE BOARD OF DIRECTORS OF
PALOMAR HEALTH DEVELOPMENT, INC.
AUTHORIZING ACCEPTANCE OF THE INDEPENDENT AUDIT
OF THE ANNUAL FINANCIAL REPORT OF
PALOMAR HEALTH DEVELOPMENT, INC., FOR FISCAL YEAR END 2018
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 2018 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 2018 (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 November 5, 2018, *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 November 5, 2018, by the following vote:

AYES: Czerwonka, Griffith, Hansen, King

NOES:

ABSENT: Sison

ABSTAINING:

DATED: November 5, 2018

APPROVED:

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

ATTESTED:

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

Palomar Health Development, Inc.

Financial Statements

Years Ended June 30, 2018 and 2017

Aldrich[SM]

PALOMAR HEALTH DEVELOPMENT, INC.
Financial Statements
Years Ended June 30, 2018 and 2017

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

Independent Auditors' Report

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

We have audited the accompanying financial statements of Palomar Health Development, Inc. (a nonprofit Organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palomar Health Development, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding Economic Dependency

Palomar Health Development, Inc. was formed to support Palomar Health (PH) and the financial activity between the two organizations is significant. As seen on the statements of financial position, the net assets as of June 30, 2018 and 2017 is negative. Palomar Health Development, Inc. is economically dependent on PH. Our opinion is not modified with respect to this matter.

Aldrich CPAs + Advisors LLP

Carlsbad, California
November 5, 2018

PALOMAR HEALTH DEVELOPMENT, INC.
Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
ASSETS		
Current Assets:		
Cash	$ 1,405,206	$ 1,545,580
Grants receivable	654,426	509,845
Prepaid expenses	2,523	2,413
Total Assets	$ 2,062,155	$ 2,057,838
LIABILITIES AND NET DEFICIT		
Current Liabilities:		
Current portion of line of credit - Palomar Health	$ 120,000	$ 120,000
Accounts payable- Palomar Health	547,621	630,923
Accounts payable	57,274	73,111
Accrued expenses	13,500	10,600
Deferred revenue	6,013	6,013
Total Current Liabilities	744,408	840,647
Line of Credit, net of current portion - Palomar Health	2,159,300	2,189,737
Total Liabilities	2,903,708	3,030,384
Net Deficit:		
Unrestricted	(1,072,371)	(1,296,138)
Temporarily restricted	230,818	323,592
Total Net Deficit	(841,553)	(972,546)
Total Liabilities and Net Deficit	$ 2,062,155	$ 2,057,838

PALOMAR HEALTH DEVELOPMENT, INC.

Statement of Activities

Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
Revenue and Support:			
Contract revenue	$ 3,590,219	$ -	$ 3,590,219
Other income	6,024	-	6,024
Net assets released from restrictions, satisfaction of program restrictions	92,774	(92,774)	-
Total Revenue and Support	3,689,017	(92,774)	3,596,243
Expenses:			
Program services	2,986,532	-	2,986,532
General and administrative	478,718	-	478,718
Total Expenses	3,465,250	-	3,465,250
Changes in Net Assets	223,767	(92,774)	130,993
Net Assets (Deficit), beginning	(1,296,138)	323,592	(972,546)
Net Assets (Deficit), ending	$ (1,072,371)	$ 230,818	$ (841,553)

PALOMAR HEALTH DEVELOPMENT, INC.
Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue and Support:			
Contract revenue	$ 3,546,830	$ -	$ 3,546,830
Other income	2,817	-	2,817
Net assets released from restrictions, satisfaction of program restrictions	134,298	(134,298)	-
Total Revenue and Support	3,683,945	(134,298)	3,549,647
Expenses:			
Program services	2,904,322	-	2,904,322
General and administrative	472,219	-	472,219
Total Expenses	3,376,541	-	3,376,541
Changes in Net Assets	307,404	(134,298)	173,106
Net Assets (Deficit), beginning	(1,603,542)	457,890	(1,145,652)
Net Assets (Deficit), ending	$ (1,296,138)	$ 323,592	$ (972,546)

See accompanying notes to financial statements.

PALOMAR HEALTH DEVELOPMENT, INC.

Statements of Cash Flows

Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Changes in net assets	$ 130,993	$ 173,106
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Line of credit discount - Palomar Health	89,563	90,544
Changes in operating assets and liabilities:		
Grants receivable	(144,581)	265,463
Prepaid expenses	(110)	(110)
Accounts payable- Palomar Health	(83,302)	86,157
Accounts payable	(15,837)	(46,220)
Accrued expenses	2,900	-
Net Cash Provided (Used) by Operating Activities	(20,374)	568,940
Cash Flows Used by Financing Activities:		
Payments on line of credit - Palomar Health	(120,000)	(120,051)
Net Increase (Decrease) in Cash	(140,374)	448,889
Cash, beginning	1,545,580	1,096,691
Cash, ending	$ 1,405,206	$ 1,545,580
Supplemental disclosure of noncash financing activities:		
Interest relieved from restrictions as contribution	$ 89,563	$ 90,544

See accompanying notes to financial statements.

Note 1 - Organization and Summary of Significant Accounting Policies

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

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

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

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

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

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

The Organization had no permanently restricted net assets during the years ended June 30, 2018 and 2017.

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

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

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

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

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

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

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

The carrying value of cash, receivables, and payables approximate fair values as of June 30, 2018 and 2017, 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, 2018 and 2017, no such unrelated business income was reported and, therefore, no provision for income taxes has been made.

The Organization has considered the tax positions taken in its tax returns and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely-than not to be sustained upon examination.

Subsequent Events
The Organization has evaluated subsequent events through November 5, 2018, which is the date the financial statements were available to be issued.

Note 2 - Concentrations of Credit Risk

Cash
The Organization maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of $250,000 per depositor, per financial institution. At June 30, 2018 and 2017, the Organization’s total uninsured cash balance was $867,677 and $990,987, respectively.

The Organization maintains its cash in an account with a brokerage firm that is insured by the Securities Investor Protection Corporation (SIPC) up to a limit of $500,000, which includes a $250,000 limit for cash. At June 30, 2018 and 2017, the Organization’s total uninsured securities cash balance was $63,494 and $59,154, respectively.

Contract Revenue
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 contract term is through June 30, 2018, with an additional two option year. On July 1, 2018, the contract was renewed for an additional year through June 30, 2019. The Healthy Development Services Program (Program), funded by the Commission, provided 52% and 55% of the Organization’s contract revenue for the years ended June 30, 2018 and 2017, respectively, and 52% and 47% of the Organization’s grants receivable at June 30, 2018 and 2017, respectively.

The Organization and the Commission entered into an agreement to provide targeted home visiting initiative services. The contract term is through June 30, 2018, with an additional two option year. On July 1, 2018, the contract was renewed for an additional year through June 30, 2019. The First Five First Steps (Program), funded by the Commission, provided 36% and 35% of the Organization’s contract revenue for the years ended June 30, 2018 and 2017, respectively, and 37% and 31% of the Organization’s grants receivable at June 30, 2018 and 2017, respectively.

Note 2 - Concentrations of Credit Risk, continued

Economic Dependency
The Organization is economically dependent on PH.

Note 3 - Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

	2018	2017
Interest on note payable to PH	$ 226,599	$ 316,162
Marjorie Mosher- Sexual Assualt Response Team Staff Ed.	4,219	7,430
	$ 230,818	$ 323,592

During the years ended June 30, 2018 and 2017, net assets were released from donor restrictions by incurring expenditures satisfying the restrictions as follows:

	2018	2017
Interest on note payable to PH	$ 89,563	$ 90,544
Marjorie Mosher- Sexual Assualt Response Team Staff Ed.	3,211	6,133
CareFusion Grant	-	37,621
	$ 92,774	$ 134,298

Note 4 - Related Party Transactions

Financial and Accounting Services Agreement
The Organization has a financial and accounting service agreement with PH. Under the agreement, PH provides managerial, administrative, financial, and accounting services to the Organization. The value of services provided by PH is reimbursed by the Organization and included in accounts payable. The reimbursed expenses included all payroll services as well as other expenses. The amount of expenses reimbursed by the Organization to PH during the years then ended June 30, 2018 and 2017, were $3,114,301 and $2,849,825, respectively. At June 30, 2018 and 2017, the amount due to PH included in accounts payable was $547,621 and $630,923, respectively.

Note Payable and Line of Credit
The Organization had a note payable from PH that expired on January 24, 2016. In March 2016, PH's Board of Directors approved a request from the Organization to amend the note payable as a line of credit. Under the new terms, the line of credit is interest-free, 60 payments of $10,000 are due monthly, and a balloon payment is due on January 24, 2021. At June 30, 2018 and 2017, the amount due to PH was $2,279,300 and $2,309,737, respectively. The Organization recorded a contribution and a discount for the imputed interest using the rate of 3.28% (line of credit rate at expiration). Imputed interest expense of $89,563 and $90,544 is reported in the statements of activities for the years ended June 30, 2018 and 2017, respectively.

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

Note 4 - Related Party Transactions, continued

Scheduled maturities of the line of credit are as follows as of June 30, 2018:

Year ending June 30,		
2019	$	120,000
2020		120,000
2021		2,265,899
		2,505,899
Less unamortized discount		(226,599)
		2,279,300
Less current portion		(120,000)
	$	2,159,300

Operating Lease
The Organization leases office space and clinical support services on the Palomar Health Campus and rents the office space from PH for the Healthy Development Services Program. The lease term with PH expired on June 30, 2018. On July 1, 2018, the lease was renewed for an additional year expiring on June 30, 2019. The Organization also receives donated space for the First Five Steps Program from PH in return for maintenance upkeep. Rent expense was $20,000 and $30,565 for the years ended June 30, 2018 and 2017, respectively.