

RESOLUTION NO. 12.13.21(01)-1

RESOLUTION OF THE BOARD OF DIRECTORS OF
PALOMAR HEALTH DEVELOPMENT, INC.
AUTHORIZING ACCEPTANCE OF THE INDEPENDENT AUDIT
OF THE ANNUAL FINANCIAL REPORT OF
PALOMAR HEALTH DEVELOPMENT, INC., FOR FISCAL YEAR END 2021
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 2021 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 2021 (Audited) of Palomar Health Development, Inc., a California Nonprofit Public Benefit Corporation, as augmented by the report of independent accountants of Aldrich CPAs + Advisors, LLC, of San Diego, California, as presented to the Board of Directors on December 13, 2021, and adopted in the form attached hereto, is hereby accepted as the Annual Report of Palomar Health Development.

PASSED AND ADOPTED at the meeting of the Board of Directors of Palomar Health Development held on December 13, 2021, by the following vote:

AYES: Bogert Corrales Greer Hansen

NOES:

ABSENT: Griffith

ABSTAINING:

DATED: December 13, 2021

APPROVED:



Terry Corrales, RN, Chairperson
Board of Directors
Palomar Health Development, Inc.

ATTESTED:



Tanya Howell
Corporate Secretary
Palomar Health Development, Inc.

Palomar Health Development, Inc.

Financial Statements

Years Ended June 30, 2021 and 2020



PALOMAR HEALTH DEVELOPMENT, INC.

Financial Statements

Years Ended June 30, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Palomar Health Development, Inc. (a nonprofit Organization), which comprise the statements of financial position as of June 30, 2021 and 2020, the related statements of activities, functional expenses, 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 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, 2021 and 2020, 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. 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
December 15, 2021

PALOMAR HEALTH DEVELOPMENT, INC.**Statements of Financial Position**

June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current Assets:		
Cash	\$ 1,828,877	\$ 1,769,980
Grants receivable	649,976	585,926
Prepaid expenses	<u>2,922</u>	<u>2,743</u>
Total Assets	\$ <u><u>2,481,775</u></u>	\$ <u><u>2,358,649</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Line of credit - Palomar Health	\$ 1,837,720	\$ 2,215,353
Accounts payable - Palomar Health	581,511	579,483
Accounts payable - other	2,000	1,619
Accrued expenses	<u>-</u>	<u>18,000</u>
Total Liabilities	2,421,231	2,814,455
Net Assets:		
Without donor restrictions	(256,341)	(515,058)
With donor restrictions	<u>316,885</u>	<u>59,252</u>
Total Net Assets	<u>60,544</u>	<u>(455,806)</u>
Total Liabilities and Net Assets	\$ <u><u>2,481,775</u></u>	\$ <u><u>2,358,649</u></u>

PALOMAR HEALTH DEVELOPMENT, INC.**Statement of Activities**

Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and Support:			
Grant revenue	\$ 3,435,974	\$ -	\$ 3,435,974
Other income	387	337,942	338,329
Net assets released from restrictions:			
Satisfaction of time restrictions	<u>80,309</u>	<u>(80,309)</u>	<u>-</u>
Total Revenue and Support	3,516,670	257,633	3,774,303
Expenses:			
Program services	2,804,536	-	2,804,536
General and administrative	<u>453,417</u>	<u>-</u>	<u>453,417</u>
Total Expenses	<u>3,257,953</u>	<u>-</u>	<u>3,257,953</u>
Changes in Net Assets	258,717	257,633	516,350
Net Assets (Deficit), beginning	<u>(515,058)</u>	<u>59,252</u>	<u>(455,806)</u>
Net Assets (Deficit), ending	\$ <u><u>(256,341)</u></u>	\$ <u><u>316,885</u></u>	\$ <u><u>60,544</u></u>

PALOMAR HEALTH DEVELOPMENT, INC.**Statement of Activities**

Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and Support:			
Grant revenue	\$ 3,475,992	\$ 5,000	\$ 3,480,992
Other income	5,516	-	5,516
Net assets released from restrictions:			
Satisfaction of program restrictions	3,615	(3,615)	-
Satisfaction of time restrictions	<u>87,503</u>	<u>(87,503)</u>	<u>-</u>
 Total Revenue and Support	 3,572,626	 (86,118)	 3,486,508
 Expenses:			
Program services	2,818,606	-	2,818,606
General and administrative	<u>485,034</u>	<u>-</u>	<u>485,034</u>
 Total Expenses	 <u>3,303,640</u>	 <u>-</u>	 <u>3,303,640</u>
 Changes in Net Assets	 268,986	 (86,118)	 182,868
 Net Assets (Deficit), beginning	 <u>(784,044)</u>	 <u>145,370</u>	 <u>(638,674)</u>
 Net Assets (Deficit), ending	 <u>\$ (515,058)</u>	 <u>\$ 59,252</u>	 <u>\$ (455,806)</u>

PALOMAR HEALTH DEVELOPMENT, INC.**Statement of Functional Expenses**

Year Ended June 30, 2021

	Program Services	General and Administrative	Total
	<u> </u>	<u> </u>	<u> </u>
Salaries and wages	\$ 1,593,620	\$ 254,760	\$ 1,848,380
Employee benefits	433,090	76,428	509,518
Professional fees	322,738	227	322,965
Purchased services	251,857	-	251,857
Interest	-	80,309	80,309
Moving expenses	49,983	-	49,983
Building rent	41,066	-	41,066
Consulting fees	-	36,000	36,000
Supplies	33,385	58	33,443
Training	8,768	-	8,768
Utilities	6,733	-	6,733
Equipment rent	4,257	-	4,257
Repairs and maintenance	-	4,204	4,204
Dues and subscriptions	3,465	-	3,465
Travel	1,233	-	1,233
License fees	150	-	150
Other	54,191	1,431	55,622
	<u> </u>	<u> </u>	<u> </u>
	\$ 2,804,536	\$ 453,417	\$ 3,257,953
	<u> </u>	<u> </u>	<u> </u>

PALOMAR HEALTH DEVELOPMENT, INC.**Statement of Functional Expenses**

Year Ended June 30, 2020

	Program Services	General and Administrative	Total
Salaries and wages	\$ 1,685,671	\$ 270,917	\$ 1,956,588
Employee benefits	460,614	81,275	541,889
Purchased services	257,094	-	257,094
Professional fees	225,900	15,500	241,400
Interest	-	87,503	87,503
Supplies	58,864	297	59,161
Minor equipment	36,039	-	36,039
License fees	-	24,000	24,000
Consulting fees	22,397	-	22,397
Building rent	16,281	-	16,281
Travel	6,036	-	6,036
Utilities	4,316	-	4,316
Training	4,131	-	4,131
Equipment rent	28	4,005	4,033
Repairs and maintenance	3,465	-	3,465
Dues and subscriptions	2,419	-	2,419
Other	35,351	1,537	36,888
	<u>2,818,606</u>	<u>485,034</u>	<u>3,303,640</u>
	\$	\$	\$

PALOMAR HEALTH DEVELOPMENT, INC.**Statements of Cash Flows**

Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 516,350	\$ 182,868
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Line of credit discount - Palomar Health	80,309	87,503
Changes in operating assets and liabilities:		
Grants receivable	(64,050)	110,721
Prepaid expenses	(179)	(110)
Accounts payable - Palomar Health	2,028	(26,525)
Accounts payable - other	381	(63,367)
Accrued expenses	(18,000)	1,500
	<u>516,839</u>	<u>292,590</u>
Net Cash Provided by Operating Activities	516,839	292,590
Cash Flows Used by Financing Activities:		
Net activity on line of credit - Palomar Health	<u>(457,942)</u>	<u>(120,000)</u>
	58,897	172,590
Net Increase in Cash	58,897	172,590
Cash, beginning	<u>1,769,980</u>	<u>1,597,390</u>
Cash, ending	<u>\$ 1,828,877</u>	<u>\$ 1,769,980</u>
Supplemental Disclosures of Noncash Financing Activities:		
Interest relieved from restrictions as contribution	<u>\$ 80,309</u>	<u>\$ 87,503</u>

PALOMAR HEALTH DEVELOPMENT, INC.

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

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 (GAAP) 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 financial statements of the Organization have been prepared in accordance with GAAP, which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose allowable under Internal Revenue Code sections 501(c)(3) in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Organization did not have any donor restrictions that were perpetual in nature for the years ended June 30, 2021 and 2020.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

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 GAAP. 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, 2021 and 2020, due to the relative short maturities of these instruments.

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.

Grant Revenue

Grant revenues for the Organization primarily consist of fee-for-service contracts and grants awarded by governmental agencies. Revenue for grants with conditions is recorded when the conditions are met, which is typically when services are performed.

PALOMAR HEALTH DEVELOPMENT, INC.

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

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

Revenue Recognition

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Functional Expense Allocations

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. These expenses are reported on a reasonable basis that is consistently applied. Indirect expenses are allocated to salaries and benefits to the program they relate to. All other expenses are broken out by accounts and can be directly charged to the appropriate function based upon actual expenses and time and effort.

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, 2021 and 2020, 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 December 15, 2021, which is the date the financial statements were available to be issued.

Note 2 - Concentrations of Credit Risk

Cash

The Organization maintains cash accounts at various financial institutions. The balances at times may exceed Federal Deposit Insurance Corporation (FDIC) limits. Accounts at each financial institution are insured by the FDIC up to \$250,000.

Grant 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, 2022. The Healthy Development Services Program, funded by the Commission, provided 44% and 52% of the Organization's grant revenue for the years ended June 30, 2021 and 2020, respectively, and 65% and 77% of the Organization's grants receivable at June 30, 2021 and 2020, respectively.

The Organization and the Commission entered into an agreement to provide targeted home visiting initiative services. The contract term is through June 30, 2022. The First Five First Steps, funded by the Commission, provided 32% and 29% of the Organization's grant revenue for the years ended June 30, 2021 and 2020, respectively, and 25% and 15% of the Organization's grants receivable at June 30, 2021 and 2020, respectively.

Economic Dependency

The Organization is economically dependent on PH.

PALOMAR HEALTH DEVELOPMENT, INC.

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

Note 3 - Liquidity and Availability of Resources

The Organization does not typically receive significant donations of restricted cash or other assets requiring long-term (more than 12 months) management practices. Grants awarded or restricted donations are typically current activities and such awards are consumed within the current fiscal period for the intended purpose or are received as reimbursements after approved expenditures are documented.

The Organization has a \$3,400,000 credit line from PH to support general operations as needed. Financial statements and cash needs are reviewed periodically by the Organization's board of directors and (if necessary) draw requests are reviewed for approval. At June 30, 2021, the available credit limit on the line of credit is approximately \$1,500,000. The Organization made payments of \$120,000 on the credit line during the fiscal year, net of reimbursements to PH for program expenses initially funded by PH.

The Organization's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

	<u>2021</u>	<u>2020</u>
Cash	\$ 1,828,877	\$ 1,769,980
Grants receivable	<u>649,976</u>	<u>585,926</u>
Total financial assets	2,478,853	2,355,906
Less amounts not available to be used within one year:		
Restricted by donor with purpose restrictions	<u>(8,706)</u>	<u>(8,706)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,470,147</u>	<u>\$ 2,347,200</u>

Note 4 - Net Assets

Net assets with donor restrictions are available for the following purposes at June 30:

	<u>2021</u>	<u>2020</u>
Interest on note payable to PH	\$ 308,179	\$ 50,546
Child Sexual Abuse Program	7,877	7,877
Sexual Assault Response Team Staff Ed.	<u>829</u>	<u>829</u>
	<u>\$ 316,885</u>	<u>\$ 59,252</u>

Net assets were released from donor restrictions by incurring expenses to satisfy program restriction or passage of time for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Interest on note payable to PH	\$ 80,309	\$ 87,503
Child Sexual Abuse Program	-	1,730
Sexual Assault Response Team Staff Ed.	<u>-</u>	<u>1,885</u>
	<u>\$ 80,309</u>	<u>\$ 91,118</u>

PALOMAR HEALTH DEVELOPMENT, INC.

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

Note 5 - 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, 2021 and 2020, were \$3,346,958 and \$3,184,148, respectively. At June 30, 2021 and 2020, the amount due to PH was \$581,511 and \$579,483, respectively.

Note Payable and Line of Credit

The Organization has a note payable from PH that expired in January and was amended to expire on January 25, 2026. The line of credit is interest-free, 60 payments of \$10,000 are due monthly, and a balloon payment is due on January 24, 2026. At June 30, 2021 and 2020, the amount due to PH related to this agreement was \$1,837,720 and \$2,215,353, 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 \$80,309 and \$87,503 is reported in the statements of activities for the years ended June 30, 2021 and 2020, respectively. The unamortized discount for this agreement was \$308,179 and \$50,546 for the years ended June 30, 2021 and June 30, 2020, respectively.

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

Operating Lease

The Organization leased office space and clinical support services on the Palomar Health Downtown Campus and rented the office space from PH for the Healthy Development Services Program. The lease term with PH expired on December 31, 2020. The Organization has a current lease with Escondido Investments, LLC, which expires March 31, 2025. Rent expense was \$91,049 and \$22,397 for the years ended June 30, 2021 and 2020, respectively. This lease has monthly rent amounts due of \$4,795 for the year ended June 30, 2021, and the amount expected to be paid on this lease is \$57,542.