

**RESOLUTION NO. 03.01.16(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 2015  
AS THE ANNUAL REPORT**

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

**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 Palomar 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 2015 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 2015 (Audited) of Palomar 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 16, 2015, *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 March 1, 2016, by the following vote:

AYES: Czerwonka Griffith Hemker

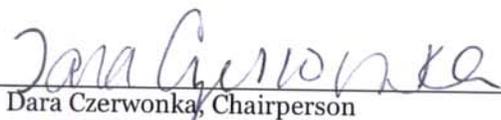
NOES:

ABSENT: Hansen Sison

ABSTAINING:

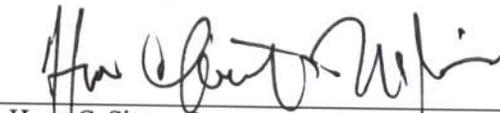
DATED: March 1, 2016

**APPROVED:**

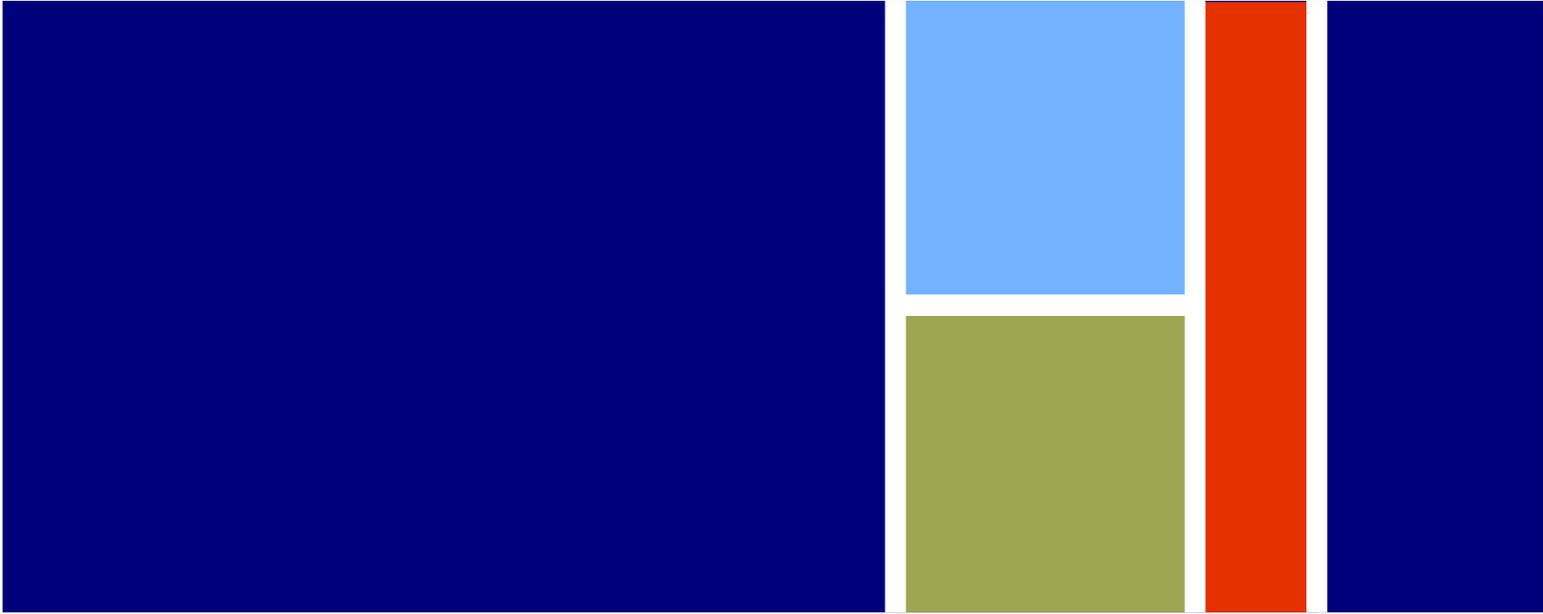


Dara Czerwonka, Chairperson  
Board of Directors  
Palomar Health Development, Inc.

**ATTESTED:**



Hans C. Sison, Secretary  
Board of Directors  
Palomar Health Development, Inc.



**PALOMAR HEALTH  
DEVELOPMENT, INC.**

**Financial Statements**

*Years Ended June 30, 2015 and 2014*



# **PALOMAR HEALTH DEVELOPMENT, INC.**

## **Financial Statements**

Years Ended June 30, 2015 and 2014

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**AKT**<sup>®</sup>

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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., which comprise the financial position as of June 30, 2015 and 2014, 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, 2015 and 2014, and the results of its activities 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 is economically dependent on Palomar Health (PH). Our opinion is not modified with respect to that matter.

*AKT LLP*

Carlsbad, California  
February 24, 2016

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

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

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 1,239,237	\$ 933,859
Grants receivable	852,562	860,233
Prepaid expenses	<u>2,190</u>	<u>2,087</u>
Total Assets	<u>\$ 2,093,989</u>	<u>\$ 1,796,179</u>
<b>LIABILITIES AND NET DEFICIT</b>		
Current Liabilities:		
Current portion of note payable - Palomar Health	\$ 120,000	\$ 120,000
Accounts payable	933,324	724,384
Accrued expenses	31,200	15,900
Deferred revenue	<u>6,013</u>	<u>16,958</u>
Total Current Liabilities	1,090,537	877,242
Note Payable, net of current portion - Palomar Health	<u>2,692,169</u>	<u>2,719,557</u>
Total Liabilities	3,782,706	3,596,799
Net Deficit:		
Unrestricted	(1,785,067)	(2,041,961)
Temporarily restricted	<u>96,350</u>	<u>241,341</u>
Total Net Deficit	<u>(1,688,717)</u>	<u>(1,800,620)</u>
Total Liabilities and Net Deficit	<u>\$ 2,093,989</u>	<u>\$ 1,796,179</u>

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

Year Ended June 30, 2015

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support:			
Contract revenue	\$ 4,468,730	\$ -	\$ 4,468,730
Contributions	-	24,214	24,214
Other income	47	-	47
Net assets released from restrictions, satisfaction of program restrictions	<u>169,205</u>	<u>(169,205)</u>	<u>-</u>
Total Revenue and Support	4,637,982	(144,991)	4,492,991
Expenses:			
Program services	3,499,199	-	3,499,199
General and administrative	<u>881,889</u>	<u>-</u>	<u>881,889</u>
Total Expenses	<u>4,381,088</u>	<u>-</u>	<u>4,381,088</u>
Changes in Net Assets	256,894	(144,991)	111,903
Net Assets (Deficit), beginning	<u>(2,041,961)</u>	<u>241,341</u>	<u>(1,800,620)</u>
Net Assets (Deficit), ending	<u><u>\$ (1,785,067)</u></u>	<u><u>\$ 96,350</u></u>	<u><u>\$ (1,688,717)</u></u>

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

Year Ended June 30, 2014

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support:			
Contract revenue	\$ 4,316,253	\$ -	\$ 4,316,253
Contributions	-	90,000	90,000
Other income	132	-	132
Net assets released from restrictions, satisfaction of program restrictions	<u>93,561</u>	<u>(93,561)</u>	<u>-</u>
Total Revenue and Support	4,409,946	(3,561)	4,406,385
Expenses:			
Program services	3,334,648	-	3,334,648
General and administrative	<u>787,106</u>	<u>-</u>	<u>787,106</u>
Total Expenses	<u>4,121,754</u>	<u>-</u>	<u>4,121,754</u>
Changes in Net Assets	288,192	(3,561)	284,631
Net Assets (Deficit), beginning	<u>(2,330,153)</u>	<u>244,902</u>	<u>(2,085,251)</u>
Net Assets (Deficit), ending	<u>\$ (2,041,961)</u>	<u>\$ 241,341</u>	<u>\$ (1,800,620)</u>

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

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 111,903	\$ 284,631
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Note payable discount - Palomar Health	92,612	93,561
Changes in operating assets and liabilities:		
Grants receivable	7,671	(379,576)
Prepaid expenses	(103)	-
Accounts payable	208,940	263,317
Accrued expenses	15,300	700
Deferred revenue	<u>(10,945)</u>	<u>(22,552)</u>
Net Cash Provided by Operating Activities	425,378	240,081
Cash Flows from Financing Activities:		
Payments on note payable - Palomar Health	<u>(120,000)</u>	<u>(120,000)</u>
Net Increase in Cash	305,378	120,081
Cash, beginning	<u>933,859</u>	<u>813,778</u>
Cash, ending	<u>\$ 1,239,237</u>	<u>\$ 933,859</u>
Supplemental disclosure of noncash financing activities:		
Interest relieved from restrictions as contribution	<u>\$ 92,612</u>	<u>\$ 93,561</u>

## **PALOMAR HEALTH DEVELOPMENT, INC.**

### **Notes to Financial Statements**

Years Ended June 30, 2015 and 2014

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#### **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, 2015 and 2014.

##### 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/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.

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.

## **PALOMAR HEALTH DEVELOPMENT, INC.**

### **Notes to Financial Statements**

Years Ended June 30, 2015 and 2014

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#### **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, 2015 and 2014, 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, 2015 and 2014, 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 February 24, 2016, 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, 2015, the Organization's total uninsured cash balance was \$989,238 (\$685,705 at June 30, 2014).

##### 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 48% and 49% of the Organization's contract revenue for the years ended June 30, 2015 and 2014, and 47% of the Organization's grants receivable at June 30, 2015 and 2014, respectively. The agreement has been amended for a term beginning July 1, 2014 and ending June 30, 2015, with an additional five option years.

In June 2013, the Organization and the First 5 Commission of San Diego (Commission) entered into an agreement to provide targeted home visiting initiative services. The First Five First Steps (Program), funded by the Commission, provided 32% and 26% of the Organization's contract revenue for the years ended June 30, 2015 and 2014, and 42% and 28% of the Organization's grants receivable at June 30, 2015 and 2014. The Program has been amended to add five option years and the Organization has acted on one option, extending the contract through June 30, 2016, with four option years remaining.

##### Economic Dependency

The Organization is economically dependent on PH.

## PALOMAR HEALTH DEVELOPMENT, INC.

### Notes to Financial Statements

Years Ended June 30, 2015 and 2014

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#### Note 3 - Net Assets

During the year ended June 30, 2015 the Organization received two Neighborhood Reinvestment Project temporarily restricted contributions for a total of \$24,214; \$10,714 for equipment for the Sexual Assault Response Team (SART) and \$13,500 for the purchase of a TeleMedicine camera system.

Temporarily restricted net assets are available for the following purposes at August 31:

	<u>2015</u>	<u>2014</u>
Interest on note payable to Palomar Health	\$ 53,730	\$ 146,342
CareFusion Grant	37,621	50,000
Marjorie Mosher	4,999	4,999
ASHP Foundation Grant	<u>-</u>	<u>40,000</u>
	<u>\$ 96,350</u>	<u>\$ 241,341</u>

During the years ended June 30, 2015 and 2014, net assets were released from donor restrictions by incurring expenditures satisfying the restrictions as follows:

	<u>2015</u>	<u>2014</u>
Interest on note payable to Palomar Health	\$ 92,612	\$ 93,561
ASHP Foundation Grant	40,000	-
Neighborhood Reinvestment Project (NRP) II	13,500	-
CareFusion Grant	12,379	-
Neighborhood Reinvestment Project (NRP) I	<u>10,714</u>	<u>-</u>
	<u>\$ 169,205</u>	<u>\$ 93,561</u>

#### Note 4 - Related Party Transactions

##### Purchases

The Organization reimburses PH for all payroll services provided as well as other expenses. At June 30, 2015 and 2014, the amount due to PH included in accounts payable was \$712,950 and \$513,500, respectively.

In February 2011, PH'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. At June 30, 2015 and 2014, the amount due to PH was \$2,812,169 and \$2,839,557, 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 \$92,612 and \$93,561 is reported in the statement of activities for the year ended June 30, 2015 and 2014, respectively.

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

**PALOMAR HEALTH DEVELOPMENT, INC.**

**Notes to Financial Statements**

Years Ended June 30, 2015 and 2014

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**Note 4 - Related Party Transactions, continued**

Scheduled maturities of the note payable are as follows:

Year ending June 30,	
2016	\$ 120,000
2017	<u>2,745,899</u>
	2,865,899
Less unamortized discount	<u>(53,730)</u>
	2,812,169
Less current portion	<u>(120,000)</u>
	<u>\$ 2,692,169</u>

Operating Lease

The Organization leases office space and clinical support services on the Palomar Health Campus and rents the office space from PH (a related party). The initial lease terms with Palomar Health were from July 1, 2012 to June 30, 2013. Effective July 1, 2013, the Organization receives donated space from Palomar Health in return for maintenance upkeep. Rent expense was \$145,259 and \$44,678 for the years ended June 30, 2015 and 2014, respectively.