

RESOLUTION NO. 11.09.17(05)-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 2017
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 2017 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 2017 (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 9, 2017, 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 9, 2017, by the following vote:

AYES: Sison Hansen Gorzeman

NOES:

ABSENT: Griffith Hemker

ABSTAINING:

DATED: November 9, 2017

APPROVED:

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

ATTESTED:

Joy Gorzeman, RN, Secretary
Board of Directors
Palomar Health Development, Inc.

Palomar Health Development, Inc.

Financial Statements

Years Ended June 30, 2017 and 2016



PALOMAR HEALTH DEVELOPMENT, INC.

Financial Statements

Years Ended June 30, 2017 and 2016

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

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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016 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 9, 2017

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

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets:		
Cash	\$ 1,545,580	\$ 1,096,691
Grants receivable	509,845	775,308
Prepaid expenses	<u>2,413</u>	<u>2,303</u>
Total Assets	<u>\$ 2,057,838</u>	<u>\$ 1,874,302</u>
LIABILITIES AND NET DEFICIT		
Current Liabilities:		
Current portion of line of credit - Palomar Health	\$ 120,000	\$ 120,000
Accounts payable- Palomar Health	630,923	544,766
Accounts payable	73,111	119,331
Accrued expenses	10,600	10,600
Deferred revenue	<u>6,013</u>	<u>6,013</u>
Total Current Liabilities	840,647	800,710
Line of Credit, net of current portion - Palomar Health	<u>2,189,737</u>	<u>2,219,244</u>
Total Liabilities	3,030,384	3,019,954
Net Deficit:		
Unrestricted	(1,296,138)	(1,603,542)
Temporarily restricted	<u>323,592</u>	<u>457,890</u>
Total Net Deficit	<u>(972,546)</u>	<u>(1,145,652)</u>
Total Liabilities and Net Deficit	<u>\$ 2,057,838</u>	<u>\$ 1,874,302</u>

See accompanying notes to financial statements.

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

Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
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	<u>134,298</u>	<u>(134,298)</u>	<u>-</u>
Total Revenue and Support	3,683,945	(134,298)	3,549,647
Expenses:			
Program services	2,904,322	-	2,904,322
General and administrative	<u>472,219</u>	<u>-</u>	<u>472,219</u>
Total Expenses	<u>3,376,541</u>	<u>-</u>	<u>3,376,541</u>
Changes in Net Assets	307,404	(134,298)	173,106
Net Assets (Deficit), beginning	<u>(1,603,542)</u>	<u>457,890</u>	<u>(1,145,652)</u>
Net Assets (Deficit), ending	<u>\$ (1,296,138)</u>	<u>\$ 323,592</u>	<u>\$ (972,546)</u>

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

Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support:			
Contract revenue	\$ 3,447,264	\$ 8,565	\$ 3,455,829
Contributions- Palomar Health	-	444,714	444,714
Other income	580	-	580
Net assets released from restrictions, satisfaction of program restrictions	<u>91,739</u>	<u>(91,739)</u>	<u>-</u>
Total Revenue and Support	3,539,583	361,540	3,901,123
Expenses:			
Program services	2,907,239	-	2,907,239
General and administrative	<u>450,819</u>	<u>-</u>	<u>450,819</u>
Total Expenses	<u>3,358,058</u>	<u>-</u>	<u>3,358,058</u>
Changes in Net Assets	181,525	361,540	543,065
Net Assets (Deficit), beginning	<u>(1,785,067)</u>	<u>96,350</u>	<u>(1,688,717)</u>
Net Assets (Deficit), ending	<u><u>\$ (1,603,542)</u></u>	<u><u>\$ 457,890</u></u>	<u><u>\$ (1,145,652)</u></u>

See accompanying notes to financial statements.

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

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 173,106	\$ 543,065
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Line of credit discount - Palomar Health	90,544	91,739
Changes in operating assets and liabilities:		
Grants receivable	265,463	77,254
Prepaid expenses	(110)	(113)
Accounts payable- Palomar Health	(46,220)	(168,184)
Accounts payable	86,157	(101,043)
Accrued expenses	-	(20,600)
Net Cash Provided by Operating Activities	568,940	422,118
Cash Flows Used by Financing Activities:		
Payments on line of credit - Palomar Health	(120,051)	(564,664)
Net Increase (Decrease) in Cash	448,889	(142,546)
Cash, beginning	1,096,691	1,239,237
Cash, ending	\$ <u>1,545,580</u>	\$ <u>1,096,691</u>
Supplemental disclosure of noncash financing activities:		
Interest relieved from restrictions as contribution	\$ <u>90,544</u>	\$ <u>91,739</u>

PALOMAR HEALTH DEVELOPMENT, INC.

Notes to Financial Statements

Years Ended June 30, 2017 and 2016

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, 2017 and 2016.

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.

PALOMAR HEALTH DEVELOPMENT, INC.

Notes to Financial Statements

Years Ended June 30, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016, 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 9, 2017, 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, 2017 and 2016, the Organization's total uninsured cash balance was \$990,987 and \$582,706, 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, 2017 and 2016, the Organization's total uninsured securities cash balance was \$59,154 and \$57,006, 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, 2017, with an additional three option year. The Healthy Development Services Program (Program), funded by the Commission, provided 55% and 54% of the Organization's contract revenue for the years ended June 30, 2017 and 2016, respectively, and 47% and 47% of the Organization's grants receivable at June 30, 2017 and 2016, respectively.

The Organization and the Commission entered into an agreement to provide targeted home visiting initiative services. The contract term is through June 30, 2017, with an additional three option year. The First Five First Steps (Program), funded by the Commission, provided 35% and 37% of the Organization's contract revenue for the years ended June 30, 2017 and 2016, respectively, and 31% and 38% of the Organization's grants receivable at June 30, 2017 and 2016, respectively.

Economic Dependency

The Organization is economically dependent on PH.

PALOMAR HEALTH DEVELOPMENT, INC.

Notes to Financial Statements

Years Ended June 30, 2017 and 2016

Note 3 - Net Assets

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

	2017	2016
Interest on note payable to PH	\$ 316,162	\$ 406,705
CareFusion Grant	-	37,621
Marjorie Mosher	7,430	13,564
	<u>\$ 323,592</u>	<u>\$ 457,890</u>

During the years ended June 30, 2017 and 2016, net assets were released from donor restrictions by incurring expenditures satisfying the restrictions as follows:

	2017	2016
Interest on note payable to PH	\$ 90,544	\$ 91,739
Marjorie Mosher	6,133	-
CareFusion Grant	37,621	-
	<u>\$ 134,298</u>	<u>\$ 91,739</u>

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, 2017 and 2016, were \$2,849,825 and \$2,522,821, respectively. At June 30, 2017 and 2016, the amount due to PH included in accounts payable was \$630,923 and \$544,766, 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, 2017 and 2016, the amount due to PH was \$2,309,737 and \$2,339,244, 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 \$90,544 and \$91,739 is reported in the statements of activities for the years ended June 30, 2017 and 2016, respectively.

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

PALOMAR HEALTH DEVELOPMENT, INC.

Notes to Financial Statements

Years Ended June 30, 2017 and 2016

Note 4 - Related Party Transactions, continued

Scheduled maturities of the line of credit are as follows as of June 30, 2017:

Year ending June 30,	
2018	\$ 120,000
2019	120,000
2020	120,000
2021	2,265,899
	<u>2,625,899</u>
Less unamortized discount	<u>(316,162)</u>
	2,309,737
Less current portion	<u>(120,000)</u>
	<u>\$ 2,189,737</u>

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, 2017. The Organization also receives donated space for the First Five Steps Program from PH in return for maintenance upkeep. Rent expense was \$30,565 and \$25,428 for the years ended June 30, 2017 and 2016, respectively.