

**SPECIAL MEETING OF THE AUDIT COMMITTEE OF THE
BOARD OF DIRECTORS
MONDAY, NOVEMBER 14, 2022, 11:30 A.M.**

PLEASE NOTE: Participation will be virtual pursuant to Palomar Health Board Resolution No. 01.10.22(03)-03 which applies to those members of the Palomar Health Development Board who are also members of the Palomar Health Board.

Please join the meeting from your computer, tablet or smartphone: <https://meet.goto.com/174294869>

OR Dial in using your phone: 877.309.2073; Access Code: 174294869#

	<u>Time</u>	<u>Page</u>	<u>Target</u>
I. CALL TO ORDER			11:30
II. PUBLIC COMMENTS	15		11:45
<i>5 minutes allowed per speaker, with a cumulative total of 15 minutes per group For further details and policy see Request for Public Comment notice on the website</i>			
III. INFORMATION ITEMS			
A. None	0		11:45
IV. OLD BUSINESS			
A. None	0		11:45
V. MINUTES			
*A. Friday, September 9, 2022 (<i>TO BE DISTRIBUTED UNDER SEPARATE COVER</i>)	2	2	11:47
VI. NEW BUSINESS			
*A. Audited Financial Statements – FYE June 30, 2022– (<i>Addenda A&B – Pp4-11 & 12-25</i>) <i>Aldrich CPAs & Advisors LLP</i>	20	3	12:07
VII. PRESENTATIONS			
*A. NONE			
VIII. COMMITTEE MEMBER COMMENTS/FUTURE AGENDA ITEMS	5	—	12:12
IX. FINAL ADJOURNMENT			12:12

Next Meeting: TBD

**Palomar Health Development, Inc.
Audit Committee of the Board of Directors**

Linda Greer, RN, Chairperson

Laurie Edwards-Tate, Vice-Chairperson

**If you have a disability, please contact us 72 hours prior to scheduled meeting time
by calling 760-740-6383 to arrange reasonable accommodations**

**Minutes from the September 9, 2022,
Palomar Health Development Audit Committee Meeting**

TO: Audit Committee of the Palomar Health Development Board

MEETING DATE: Monday, November 14, 2022

FROM: Tanya Howell, Corporate Secretary

Background: The minutes from the meeting of the PHD Audit Committee, held on Wednesday, September 9, 2022, will be distributed under separate cover prior to the meeting.

Budget Impact: N/A

STAFF RECOMMENDATION: Staff recommends approval of the minutes from the meeting of the PHD Audit Committee, held on Wednesday, September 9, 2022.

Motion: X

Individual Action:

Information:

Required Time:

**Presentation of the External Auditing Firm
Aldrich CPAs & Advisors LLP**

TO: Audit Committee of the Palomar Health Development Board

MEETING DATE: Monday, November 14, 2022

FROM: Tanya Howell, Corporate Secretary

Background: The external auditing firm of Aldrich CPAs & Advisors LLP has been retained to perform an audit of the FYE June 30, 2022, financial reports of Palomar Health Development, Inc.

Representatives from the firm will present the final draft audited financials at the meeting (Addenda A & B).

Budget Impact: Budgeted

STAFF RECOMMENDATION: Staff recommends approval of the audit of the FYE June 30, 2022, financial reports.

Motion: X

Individual Action:

Information:

Required Time:

ADDENDUM A

Palomar Health Development, Inc.

Report to the Board of Directors

Year Ended June 30, 2022



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DRAFT

To assist you in your responsibilities as a member of the Board of Directors, this section summarizes the most significant conclusions reached and issues addressed during our audit of Palomar Health Development, Inc. for the year ended June 30, 2022.

Significant Conclusions and Issues

We have completed our audit and have issued our report dated **DATE**. Based on our work performed:

- Our audit scope was in accordance with our engagement letter dated August 11, 2022.
- We rendered an unmodified opinion on the June 30, 2022 financial statements.
- We did not identify conditions which we consider to be material weaknesses in internal controls.
- Audit areas designated as greater than normal risk have been addressed and resolved to our satisfaction, in the context of the overall fairness of the presentation of the financial statements.
- We received the full cooperation of management and staff throughout the audit and were kept informed as to developments and plans affecting our audit scope.

The following report includes required communications and additional information for the benefit of the Board of Directors.

DRAFT

[DATE]

To the Board of Directors
Palomar Health Development, Inc.

In planning and performing our audit of the financial statements of Palomar Health Development, Inc. (Organization) as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of the Board of Directors and management of Palomar Health Development, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Aldrich CPAs + Advisors LLP

[DATE]

To the Board of Directors
Palomar Health Development, Inc.

We have audited the financial statements of Palomar Health Development, Inc. (Organization) as of and for the year ended June 30, 2022, and have issued our report thereon dated [DATE]. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 11, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant policies used by the Organization are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements are:

Management's estimate for the allowance for doubtful accounts. It is the policy of management to review the outstanding receivables at year end, as well as 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.

Management's estimate of the allocation of functional expenses is based on appropriate assumptions. We evaluated the key factors and assumptions used to develop the assumptions related to the allocation of functional expenses in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are Note 3 and Note 4 to the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated [DATE]. A copy of that letter is included in this report for your reference.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Palomar Health Development, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Aldrich CPAs + Advisors

DRAFT

[DATE]

Aldrich CPAs + Advisors LLP
5946 Priestly Drive, Ste 200
Carlsbad, CA 92008

This representation letter is provided in connection with your audit of the financial statements of Palomar Health Development Inc., which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of [DATE], the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated August 11, 2022, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
- 3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
- 7) All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- 8) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 9) Significant estimates and material concentrations have been appropriately disclosed in accordance with U.S. GAAP.
- 10) Guarantees, whether written or oral, under which the Organization is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.

Information Provided

- 11) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records (including information obtained from outside of the general and subsidiary ledgers), documentation, and other matters.

- b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the Organization from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of the governing board or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 12) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
 - 13) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
 - 14) We have no knowledge of any fraud or suspected fraud that affects the Organization and involves:
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
 - 15) We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization's financial statements communicated by employees, former employees, grantors, regulators, or others.
 - 16) We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
 - 17) We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
 - 18) We have disclosed to you the names of all of the Organization's related parties and all the related-party relationships and transactions, including any side agreements.
 - 19) The Organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
 - 20) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us.
 - 21) Palomar Health Development, Inc. is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.
 - 22) In regard to the tax services and any other nonattest services performed by you, we have –
 - a) Assumed all management responsibilities.
 - b) Designated senior management who has (have) suitable skill, knowledge, or experiences to oversee the services.
 - c) Evaluated the adequacy and results of the services performed.
 - d) Accepted responsibility for the results of the services.

Signature: _____

Signature: _____

Name: _____

Name: _____

Title: _____

Title: _____

ADDENDUM B

Palomar Health Development, Inc.

Financial Statements

Years Ended June 30, 2022 and 2021



PALOMAR HEALTH DEVELOPMENT, INC.

Financial Statements

Years Ended June 30, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2022 and 2021, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Palomar Health Development, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Palomar Health Development, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

INDEPENDENT AUDITOR'S REPORT, CONTINUED

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Palomar Health Development, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Palomar Health Development, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Carlsbad, California
DATE

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

June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current Assets:		
Cash	\$ 1,999,815	\$ 1,828,877
Grants receivable	793,194	649,976
Prepaid expenses	<u>3,111</u>	<u>2,922</u>
Total Assets	\$ <u>2,796,120</u>	\$ <u>2,481,775</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Line of credit - Palomar Health	\$ 1,788,010	\$ 1,837,720
Accounts payable - Palomar Health	756,187	581,511
Accounts payable - other	<u>2,970</u>	<u>2,000</u>
Total Liabilities	2,547,167	2,421,231
Net Assets:		
Without donor restrictions	2,359	(256,341)
With donor restrictions	<u>246,594</u>	<u>316,885</u>
Total Net Assets	<u>248,953</u>	<u>60,544</u>
Total Liabilities and Net Assets	\$ <u>2,796,120</u>	\$ <u>2,481,775</u>

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

Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Grant revenue	\$ 3,603,141	\$ -	\$ 3,603,141
Other income	610	-	610
Net assets released from restrictions:			
Satisfaction of time restrictions	70,291	(70,291)	-
Total Revenue and Support	3,674,042	(70,291)	3,603,751
Expenses:			
Program services	2,946,043	-	2,946,043
General and administrative	469,299	-	469,299
Total Expenses	3,415,342	-	3,415,342
Changes in Net Assets	258,700	(70,291)	188,409
Net Assets (Deficit), beginning	(256,341)	316,885	60,544
Net Assets, ending	\$ 2,359	\$ 246,594	\$ 248,953

See accompanying notes to financial statements.

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	<u>2,804,536</u>	-	<u>2,804,536</u>
General and administrative	<u>453,417</u>	-	<u>453,417</u>
Total Expenses	<u>3,257,953</u>	-	<u>3,257,953</u>
Changes in Net Assets	<u>258,717</u>	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>(256,341)</u>	\$ <u>316,885</u>	\$ <u>60,544</u>

See accompanying notes to financial statements.

PALOMAR HEALTH DEVELOPMENT, INC.

Statement of Functional Expenses

Year Ended June 30, 2022

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 1,686,342	\$ 261,993	\$ 1,948,335
Employee benefits	445,389	78,598	523,987
Professional fees	321,491	16,000	337,491
Purchased services	271,656	-	271,656
Interest	-	70,291	70,291
Building rent	68,421	-	68,421
Consulting fees	-	36,000	36,000
Supplies	31,074	338	31,412
Emergency needs for clients	29,464	-	29,464
Incentives	14,116	-	14,116
Repairs and maintenance	9,055	4,477	13,532
Training	13,527	-	13,527
Travel	12,631	-	12,631
License fees	10,293	-	10,293
Utilities	8,987	-	8,987
Dues and subscriptions	5,565	-	5,565
Equipment rent	4,669	-	4,669
Other	13,363	1,602	14,965
	<u>\$ 2,946,043</u>	<u>\$ 469,299</u>	<u>\$ 3,415,342</u>

See accompanying notes to financial statements.

PALOMAR HEALTH DEVELOPMENT, INC.

Statement of Functional Expenses

Year Ended June 30, 2021

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</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
Incentives	21,222	-	21,222
Emergency needs for clients	15,349	-	15,349
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	17,620	1,431	19,051
	<u>\$ 2,804,536</u>	<u>\$ 453,417</u>	<u>\$ 3,257,953</u>

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

Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 188,409	\$ 516,350
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Line of credit discount - Palomar Health	70,291	80,309
Changes in operating assets and liabilities:		
Grants receivable	(143,218)	(64,050)
Prepaid expenses	(189)	(179)
Accounts payable - Palomar Health	174,676	2,028
Accounts payable - other	970	381
Accrued expenses	-	(18,000)
Net Cash Provided by Operating Activities	<u>290,939</u>	<u>516,839</u>
Cash Flows Used by Financing Activities:		
Net activity on line of credit - Palomar Health	<u>(120,001)</u>	<u>(457,942)</u>
Net Increase in Cash	170,938	58,897
Cash, beginning	<u>1,828,877</u>	<u>1,769,980</u>
Cash, ending	<u>\$ 1,999,815</u>	<u>\$ 1,828,877</u>
Supplemental Disclosures of Noncash Financing Activities:		
Interest relieved from restrictions as contribution	<u>\$ 70,291</u>	<u>\$ 80,309</u>

See accompanying notes to financial statements.

PALOMAR HEALTH DEVELOPMENT, INC.

Notes to Financial Statements

Years Ended June 30, 2022 and 2021

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, 2022 and 2021.

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, 2022 and 2021, 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, 2022 and 2021

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, 2022 and 2021, 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 **DATE**, 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 43% and 44% of the Organization's grant revenue for the years ended June 30, 2022 and 2021, respectively, and 43% and 65% of the Organization's grants receivable at June 30, 2022 and 2021, 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 27% and 32% of the Organization's grant revenue for the years ended June 30, 2022 and 2021, respectively, and 31% and 25% of the Organization's grants receivable at June 30, 2022 and 2021, respectively.

The Organization and the San Diego County Sheriff's Department entered into an agreement to provide victim services. The contract term is through June 30, 2022. The Victim Services Program, funded by the Department, was 16% of the Organization's grants receivable at June 30, 2022.

PALOMAR HEALTH DEVELOPMENT, INC.

Notes to Financial Statements

Years Ended June 30, 2022 and 2021

Note 2 - Concentrations of Credit Risk, continued

Economic Dependency

The Organization is economically dependent on PH.

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, 2022, the available credit limit on the line of credit is approximately \$1,600,000. 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>2022</u>	<u>2021</u>
Cash	\$ 1,999,815	\$ 1,828,877
Grants receivable	<u>793,194</u>	<u>649,976</u>
Total financial assets	2,793,009	2,478,853
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>\$ 2,784,303</u>	<u>\$ 2,470,147</u>

Note 4 - Net Assets

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

	<u>2022</u>	<u>2021</u>
Interest on note payable to PH	\$ 237,888	\$ 308,179
Child Sexual Abuse Program	7,877	7,877
Sexual Assault Response Team Staff Ed.	<u>829</u>	<u>829</u>
	<u>\$ 246,594</u>	<u>\$ 316,885</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, 2022 and 2021, interest on the note payable to PH of \$70,291 and \$80,309 were released from donor restrictions, respectively.

PALOMAR HEALTH DEVELOPMENT, INC.

Notes to Financial Statements

Years Ended June 30, 2022 and 2021

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, 2022 and 2021, were \$3,451,219 and \$3,346,958, respectively. At June 30, 2022 and 2021, the amount due to PH was \$756,187 and \$581,111, 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, 2022 and 2021, the amount due to PH related to this agreement was \$1,788,010 and \$1,837,720, 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 \$70,291 and \$80,309 is reported in the statements of activities for the years ended June 30, 2022 and 2021, respectively. The unamortized discount for this agreement was \$237,888 and \$308,179 for the years ended June 30, 2022 and June 30, 2021, respectively.

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

Note 6 - Operating Lease

The Organization has a current lease with Escondido Investments, LLC, which expires March 31, 2025. Rent expense was \$68,421 and \$91,049 for the years ended June 30, 2022 and 2021, respectively.

Future minimum payments under the operating lease agreement as of June 30, 2022 are as follows:

Year ending June 30:	
2023	\$ 60,158
2024	61,962
2025	47,630
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	\$ 169,750