

**SPECIAL MEETING OF THE AUDIT COMMITTEE OF THE  
BOARD OF DIRECTORS  
MONDAY, NOVEMBER 18, 2024, 1:00 P.M.**

**PLEASE SEE PAGE 2 FOR MEETING LOCATION**

		<u>Time</u>	<u>Page</u>	<u>Target</u>
I.	CALL TO ORDER			1:00
II.	PUBLIC COMMENTS	15		1:15
	<i>5 minutes allowed per speaker, with a cumulative total of 15 minutes per group For further details and policy see <a href="#">Request for Public Comment</a> notice on the website</i>			
III.	INFORMATION ITEMS			
A.	None	0		1:15
IV.	OLD BUSINESS			
A.	None	0		1:15
V.	MINUTES			
*A.	Tuesday, November 27, 2023, Special Meeting ( <i>Addendum A – Pp 6-13</i> )	2	3	1:17
VI.	NEW BUSINESS			
*A.	Election of a Chairperson and a Vice-Chairperson of the Audit Committee	5	4	1:22
VII.	PRESENTATIONS			
*A.	Audited Financial Statements – FYE June 30, 2024– ( <i>Addenda B &amp; C – Pp 14-19 &amp; 20-33</i> ) <i>Aldrich CPAs &amp; Advisors LLP</i>	20	5	1:42
VIII.	COMMITTEE MEMBER COMMENTS/FUTURE AGENDA ITEMS	5	—	1:47
IX.	FINAL ADJOURNMENT			1:47

Next Meeting: **TBD**

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

Linda Greer, RN, Chairperson

Laura Barry, Director

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

- The Linda Greer Conference Room, 2125 Citracado Parkway, Suite 300, Escondido, CA 92029
  - PHD Board members who are also elected members of the Palomar Health Board of Directors will attend at this location, unless otherwise noticed below
  - Elected members of the Board of Directors of Palomar Health who are not members of the PHD Board and wish only to observe, non-Board member attendees, and members of the public may also attend at this location
- Join on your computer, mobile app or room device:
  - [Click here to join the meeting](#) | Meeting ID: 277 098 524 59; Passcode: 2hYzLu |

## OR

- Dial in using your phone (*audio only*):
  - 929.352.2216 | Phone Conference ID: 972 476 394# |
  - Elected members of the Board of Directors of Palomar Health who are not members of the PHD Board and wish only to observe, non-Board member attendees, and members of the public may attend the meeting virtually utilizing the above options

**Minutes from the November 27, 2023  
Special Palomar Health Development Audit Committee Meeting**

**TO:** Audit Committee of the Palomar Health Development Board

**MEETING DATE:** Monday, November 18, 2024

**FROM:** Tanya Howell, Corporate Secretary

**Background:** The minutes from the special meeting of the PHD Audit Committee, held on Monday, November 27, 2023, are included in the packet as Addendum A.

**Budget Impact:** N/A

**STAFF RECOMMENDATION:** Approval

**Motion:** X

**Individual Action:**

**Information:**

**Required Time:**

## Election of Officers for CY2024

**TO:** Audit Committee of the Palomar Health Development Board

**MEETING DATE:** Monday, November 18, 2024

**FROM:** Andrew Tokar, Chief Financial Officer

**Background:** The Bylaws of Palomar Health Development, Inc. (“Health Development”) {*ARTICLE IV, Section 4.12, as amended January 27, 2015*} authorize the Board of Directors (“the Board”) to create one or more Board committees. In November 2018, the Board formally created a two-person Audit Committee, comprised of “the two Palomar Health-appointed Directors of the Board not appointed Chairperson of the Board”.

Further, *ARTICLE IV, Section 4.13* requires that regular and special meetings and actions of Board Committees shall be governed by the provisions of this *Article IV* applicable to meetings and actions of the Board.

*ARTICLE IV, Section 4.07* requires that the Board elect officers at its Annual Organizational Meeting: “One member shall be elected as Chairperson, one as Vice-Chairperson and one as Secretary. The Board may also appoint the Treasurer at the Annual Organizational Meeting.” In order to adapt *Section 4.07* for pertinence to this two-person Board Committee, a Chairperson and a Vice-Chairperson should be elected.

The current slate of officers consists only of a Chairperson, the Vice-Chairperson having resigned from this Board:

- Linda Greer, Chairperson
- Laura Barry, Director

**Budget Impact:** N/A

**STAFF RECOMMENDATION:** Staff recommends that a Chairperson and a Vice-Chairperson be elected for the Audit Committee of the Health Development Board.

**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 18, 2024

**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, 2024, financial reports of Palomar Health Development, Inc.

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

**Budget Impact:** Budgeted

**STAFF RECOMMENDATION:** Staff recommends approval of the audit of the FYE June 30, 2024, financial reports.

**Motion:** X

**Individual Action:**

**Information:**

**Required Time:**

# ADDENDUM A

# Meeting Minutes

ATTENDANCE ROSTER		
MEMBERS	MEETING DATES	
	9/5/23	11/27/23
Linda C. Greer, RN, Chairperson	V*	P
Laurie Edwards-Tate, MS, Vice-Chairperson	P	V
<b>Staff Attendee</b>		
Tanya Howell, Secretary	P	P
<b>Guest Presenters<sup>1</sup></b>		

P = Present E = Excused V = Virtual

<sup>1</sup> See text of minutes for names of invited guests/presenters

**HEALTH DEVELOPMENT AUDIT COMMITTEE – SPECIAL MEETING MINUTES – MONDAY, NOVEMBER 27, 2023**

**AGENDA ITEM**

**• DISCUSSION**

**CONCLUSIONS/ACTIONS**

**FOLLOW-UP/  
RESP PARTY**

**I. CALL TO ORDER**

- The **Notice of Meeting** and **Full Agenda Packet** were posted at PH’s Administrative Offices and on the Palomar Health Development, Inc. (PHD) home page on the PH website on Wednesday, November 22, 2023, which is consistent with legal requirements. Notice of that posting was also made that date via email to the Board and staff members.
- Quorum comprised of Directors Greer and Edwards-Tate
  - o Director Edwards-Tate attended virtually, acknowledged and approved by Chairperson Greer
- Chairperson Greer called the meeting to order at 9:11 a.m.

**II. PUBLIC COMMENTS**

- There were no public comments

**III. INFORMATION ITEMS**

- None

**IV. OLD BUSINESS**

- None

**IV. MINUTES**

**A. Minutes, Tuesday, September 5, 2023**

**MOTION:** By Chairperson Greer, seconded by Director Edwards-Tate, and carried to approve the minutes from the Wednesday, September 5, 2023, meeting  
 Vote taken by roll call vote: Chairperson Greer – aye; Director Edwards-Tate – aye

- No discussion

**VII. NEW BUSINESS**

**A. Audited Financial Statements – FYE June 30, 2023**

**MOTION:** By Chairperson Greer, seconded by Director Edwards-Tate and carried to recommend approval of the Audited Financial Statements – FYE June 30, 2023  
 Vote taken by roll call vote: Chairperson Greer – aye; Director Edwards-Tate – aye

- Mrs. Howell will forward the recommendation to the PHD Board at the December 19<sup>th</sup> meeting

- Hugh King, CFO, introduced Andy Maffia of Aldrich CPA ‘s + Advisors, who was at the meeting to present the auditor’s findings, as well as to present information regarding other professional responsibilities related to the audit



**HEALTH DEVELOPMENT AUDIT COMMITTEE – SPECIAL MEETING MINUTES – MONDAY, NOVEMBER 27, 2023**

**AGENDA ITEM**

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**CONCLUSIONS/ACTIONS**

**FOLLOW-UP/  
RESP PARTY**

- Mr. Maffia stated that he would be going over the audit report and some required professional communication related to the audit process, noting that the overall results had been really good
- As he was putting the draft audit report onscreen, Mr. Maffia commented that it was the same information that he would be presenting at the Board meeting, and the date of that meeting was confirmed to be December 19<sup>th</sup> at 12:30 p.m.
- EXECUTIVE SUMMARY (PAGE 7)
  - o The summary was where the auditors highlighted what they felt were key takeaway points for the audit process, and it was just the same type of information he wanted to know when auditors were presenting to the not-for-profit organizations on whose boards he sat
  - o The engagement letter outlined what the auditors’ responsibilities were, and what PHD’s responsibilities were as the organization being audited
    - Essentially, the firm had been hired to provide an opinion on the financial statements, and that opinion was critical as granting organizations, funder and potential donors would like to know that the financials had been reviewed by an independent party for accuracy, which aided them in their decisions related to the entity
  - o He was happy to report that the audit team had performed enough analysis and would be rendering an opinion on the financial statements called an unmodified opinion, which was the best opinion that could be obtained, providing the highest level of assurance that could be provided; and in all Aldrich’s years as the auditor for PHD, that was the same opinion that had been rendered
    - Mr. Maffia stated that the audit had been designed with that outcome in mind, as the auditors wanted to perform enough procedures and get through all of the testing work in order to be able to have that be the outcome
  - o Mr. Maffia stated that the auditors also looked at internal controls, which were the checks and balances within the financial function that helped prevent and detect errors from happening or fraud from happening
    - The did not provide an opinion on internal controls, but needed to gain an understanding of them, because that allowed them to design the audit to be as efficient and effective as possible
    - The auditors also tested internal controls as needed/if appropriate; and, if they were to find that there were areas that could be strengthened, they were required to report that information to the Audit Committee
      - 1) None had been found, which was another positive outcome for the audit
  - o The approach taken was a risk-based audit approach, which meant that the auditors focused on areas that they felt were the most significant to the operations of the organization, and also most impactful from the perspective of a reader of the financial statements
    - The auditors did not look at or test every single transaction, instead when provided with a list of incoming revenues, they wouldn’t look at every single deposit, but would hone in on those that appeared significant
    - The audit had been designed to ensure that the auditors had been able to perform all the requested procedures on the great information that the management team had provided

**HEALTH DEVELOPMENT AUDIT COMMITTEE – SPECIAL MEETING MINUTES – MONDAY, NOVEMBER 27, 2023**

**AGENDA ITEM**

**• DISCUSSION**

**CONCLUSIONS/ACTIONS**

**FOLLOW-UP/  
RESP PARTY**

- o The audit team had received full cooperation from management throughout the audit, with Aimee Ebner as their primary contact
  - In preparation for the audit, the auditor had provided a list of items to the management team, who then pulled that information and provided it to the auditors for testing
    - 1) There were often a number of questions asked, and it was critical that management be prepared and provide updated information as necessary
  - Mr. Maffia thanked Ms. Ebner for her efforts, noting that he got to present the results, but it was management’s hard work and assistance to the auditing team that had made it a seamless process
  - Mr. King added that Ms. Ebner carried about 99.9% of all the work related to management’s responses to the audit team, he thanked her, as well, and Ms. Ebner responded to both that they were welcome
- In response to an inquiry from Chairperson Greer regarding how long Aldrich had been auditing the books for PHD, Mr. Maffia indicated that it had been for 6 or 7 years; however, the firm had changed audit partners during that period of time
  - o Changing the audit partner was one of the methods of keeping the team from getting stale in their approach, as well as somewhat unpredictable
    - Another was utilizing different team members in order to obtain a fresh point of view
  - o Chairperson Greer thanked him, noting that it was a sign of good governance to maintain a rotation for a fresh look, and it helped her to maintain a level of comfort with the audit process as a member of the Board
- LETTER REGARDING INTERNAL CONTROLS (PAGE 8)
  - o Mr. Maffia stated that the letter spoke to what the audit team was allowed to say from a professional standards perspective, which was that they didn’t identify any material weaknesses in the internal controls
  - o The letter would be dated and signed, with the “draft” watermark removed, after approval of the audit by the PHD Board
  - o The letter could also be included with the financial statements should any of the granting organizations, funders or potential donors request it
- STANDARD BOARD COMMUNICATION LETTER (PAGE 9)
  - o The letter was required to be submitted with all financial statements, and, if there had been any difficulties or disagreements with management, that information would be included, but there were none in this audit
  - o The letter would also identify any sensitive estimates, and Mr. Maffia noted that any set of financial statements would have estimates, but sometimes they weren’t as solidified as, say the cash balance as of June 30<sup>th</sup>
    - If a piece of equipment had been purchased, the purchasing agency would be required to estimate how long it would last, and Mr. Maffia noted that there was a lot of guidance regarding how the estimate should be made, but it would still be an estimate
    - Other estimates could be:
      - 1) The amount to be received from accounts receivable, as an assessment had to be made regarding whether those funds were fully collectible
      - 2) How expenses would be allocated

**HEALTH DEVELOPMENT AUDIT COMMITTEE – SPECIAL MEETING MINUTES – MONDAY, NOVEMBER 27, 2023**

**AGENDA ITEM**

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RESP PARTY**

- The auditor had to ensure that everyone knew there were estimates, and they did go through them to test how they had been performed, as well as whether the amounts in those estimates had actually been paid
- o As with previous audits, there had been no difficulties with the management team, so the letter was basically boilerplate, containing the information the auditor had been required to include
- Mr. Maffia then moved forward to the Audited Financial Statements
- INDEPENDENT AUDITOR’S REPORT (PAGES 13-14)
  - o The opinion referenced earlier in the meeting was expressed at the beginning of the report, confirming that the financial statements presented fairly in all material respects to the financial position of PHD, which was what an unmodified opinion looked like
    - He noted that – even though the audit had been focused on FY2023, the firm was also the auditors for FY2022, so the financial statements included 2 years of data as most granting organizations requested two data points
  - o The Emphasis-of-Matter Regarding Economic Dependency included additional language related to the relationship with Palomar Health
  - o The rest of the letter contained very standard language, and the report would be dated and signed, with the “draft” watermark removed, after approval of the audit by the PHD Board
- STATEMENTS OF FINANCIAL POSITION (PAGE 15)
  - o This document could be thought of as the balance sheet, which included assets, liabilities and net assets
  - o Total Assets were just over \$2.8M, up from a little under that amount in 2022
    - From a trending perspective, overall assets had increased, with most of that increase in cash, which was at just over \$2.2M vs. \$1.9M in 2022
    - Prior to 2022, that amount had been negative, so this showed a continued trend of solid operations within PHD, going from a negative equity position to a more robust and positive equity position, as well as being reflective of governance and management of the organization as having been good stewards of the funds of the organization
- STATEMENTS OF ACTIVITIES – FYE JUNE 30, 2023 & FYE JUNE 30, 2022 (PAGES 16-17)
  - o This document could be thought of as the income statement, with the top portion containing revenues, and the bottom portion containing expenses
    - The additional columns of “Without Donor Restrictions” and “With Donor Restrictions” were required for nonprofit organizations, as that additional information helped the reader to understand that, although there might be a large cash balance, a portion of those funds might have been earmarked by the grantor for a specific purpose
  - o Changes in Net Assets for FYE2023 were a positive \$177K, and at FYE2022 it had a very similar amount of \$188K
    - As a not-for-profit organization, PHD was not designed to generate a profit, but to be mission driven related to the cause; however, as a business, it still needed to be operated as a going entity, so having a positive net income was good and had helped go to a positive equity position

**HEALTH DEVELOPMENT AUDIT COMMITTEE – SPECIAL MEETING MINUTES – MONDAY, NOVEMBER 27, 2023**

**AGENDA ITEM**

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RESP PARTY**

- The beginning Net Assets on the FYE2022 statement provided a little glimpse back to 2021, which had ended with a deficit of \$256K; showing that in a fairly short period of time Net Assets at the end of FYE2022 had increased to \$2.3K, and had increased to \$241K by FYE2023
- STATEMENT OF FUNCTIONAL EXPENSES FYE JUNE 30, 2023 & FYE JUNE 30, 2022 (PAGES 18-19)
  - o This statement was unique to not-for-profit organizations, and – as would be expected for virtually all not-for-profit organizations – salaries, wages and employee benefits dominated as the largest expense
  - o One of the things intended by this statement was to fully explain changes in cash balance (e.g., an entity’s cash might go up one year because money had been borrowed and placed into the bank account)
  - o The statement showed that this year the cash balance had increased because of operations, which was a good thing
- STATEMENTS OF CASH FLOWS (PAGE 20)
  - o This statement was a review of how cash went up and down and what caused that to occur
  - o Cash increased by \$267K, this year, primarily generated through operations
  - o In response to an inquiry by Chairperson Greer related to whether COVID – which was in 2020-2021 – might have had a negative impact (especially with the First Steps programs having to move from in-person to virtual and the time/ramp-up for that), Mr. Maffia stated that it certainly hadn’t helped
    - Prior to 2021 the organization had already been in a negative position – although trending toward positive – and the ability to have gotten through that was a good story for the organization
- Mr. Maffia stated that the remainder of the documentation were notes that supported the matters discussed
  - o Note 1 was regarding the organization and all the matters that were all required in order to comply with Generally Acceptable Accounting Principles (GAAP), which meant that a reader could take these financial statements and compare with another not-for-profit whose financial statements had also been prepared according to GAAP and understand that the accounting behind both sets of numbers had been applied in a similar fashion
  - o These pages were very similar to those presented in the past, merely updated for current numbers and current information
- Chairperson Greer made note that she was proud to see reference made to the Child Sexual Abuse Program and Sexual Assault Response Team on Page 23, as those programs had almost been closed, and she was impressed with the fact that administration had kept them alive through partnerships
- Director Edwards-Tate agreed with Chairperson Greer, noting that it was very heartening how import those types of programs were, sometimes they did struggle, and seeing them continue was something about which everyone could all feel good
- Mr. Maffia ended by stating that Aldrich and the management team had gone through the numbers and felt that, overall, it did reflect positively on the operations of the organization
- Chairperson Greer expressed her thanks to Mr. King and his team, as well as to Ms. Ebner, for having done an amazing job that made her feel comfortable with the firm and the changes they’d made

**HEALTH DEVELOPMENT AUDIT COMMITTEE – SPECIAL MEETING MINUTES – MONDAY, NOVEMBER 27, 2023**

**AGENDA ITEM**

**• DISCUSSION**

**CONCLUSIONS/ACTIONS**

**FOLLOW-UP/  
RESP PARTY**

**VII. PRESENTATIONS**

*NONE*

**VIII. AUDIT COMMITTEE COMMENTS/FUTURE AGENDA ITEMS**

- All comments by the members of the Committee were made during the presentation

**IX. ADJOURNMENT**

- The meeting was adjourned by Chair Greer at 9:47 a.m.

**SIGNATURES:**

**PHD Board Audit  
Committee Chair**

**PHD Board Audit  
Committee Assistant**

Tanya Howell

**Next Meeting: TBD based on scheduled date of completion of FYE June 30, 2024, audit**

# Palomar Health Development, Inc.

Report to the Board of Directors

Year Ended June 30, 2024

## ADDENDUM B

DRAFT



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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, 2024.

### Significant Conclusions and Issues

We have completed our audit and have issued our report dated TBD, 2024. Based on our work performed:

- Our audit scope was in accordance with our engagement letter dated August 12, 2024.
- We rendered an unmodified opinion on the June 30, 2024 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.



TBD, 2024

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, 2024, 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

TBD, 2024

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, 2024, and have issued our report thereon dated TBD, 2024. 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 12, 2024. 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. The new accounting standard ASC 326, *Financial Instruments - Credit Losses* was adopted by the Organization during the year ended June 30, 2024. The application of other 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 of the collectability of accounts receivable. Management believes all receivables are fully collectible. Therefore, no allowance for credit losses 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. There were no such misstatements identified for the year ended June 30, 2024.

### 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 **TBD, 2024**. 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

# Palomar Health Development, Inc.

Financial Statements

Years Ended June 30, 2024 and 2023

## ADDENDUM C

DRAFT



**PALOMAR HEALTH DEVELOPMENT, INC.**

**Financial Statements**

Years Ended June 30, 2024 and 2023

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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, 2024 and 2023, and 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, 2024 and 2023, 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.

### 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, 2024

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

June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 2,255,488	\$ 2,267,634
Grants receivable	1,131,684	600,886
Prepaid expenses	<u>3,582</u>	<u>3,347</u>
Total Assets	<u>\$ 3,390,754</u>	<u>\$ 2,871,867</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Line of credit - Palomar Health	\$ 1,683,571	\$ 1,736,646
Accounts payable - Palomar Health	1,071,066	706,576
Accounts payable - other	<u>375</u>	<u>2,437</u>
Total Liabilities	2,755,012	2,445,659
Net Assets:		
Without donor restrictions	518,294	241,250
With donor restrictions	<u>117,448</u>	<u>184,958</u>
Total Net Assets	<u>635,742</u>	<u>426,208</u>
Total Liabilities and Net Assets	<u>\$ 3,390,754</u>	<u>\$ 2,871,867</u>

See accompanying notes to financial statements.



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

Year Ended June 30, 2024

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and Support:			
Grant revenue	\$ 3,747,192	\$ 7,000	\$ 3,754,192
Other income	22,818	-	22,818
Net assets released from restrictions:			
Satisfaction of program restrictions	7,585	(7,585)	-
Satisfaction of time restrictions	66,925	(66,925)	-
 Total Revenue and Support	 3,844,520	 (67,510)	 3,777,010
 Expenses:			
Program services	3,068,558	-	3,068,558
General and administrative	498,918	-	498,918
 Total Expenses	 3,567,476	 -	 3,567,476
 Changes in Net Assets	 277,044	 (67,510)	 209,534
 Net Assets, beginning	 241,250	 184,958	 426,208
 Net Assets, ending	 \$ 518,294	 \$ 117,448	 \$ 635,742

See accompanying notes to financial statements.

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

Year Ended June 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and Support:			
Grant revenue	\$ 3,644,244	\$ 7,000	\$ 3,651,244
Other income	12,527	-	12,527
Net assets released from restrictions:			
Satisfaction of time restrictions	<u>68,636</u>	<u>(68,636)</u>	<u>-</u>
Total Revenue and Support	3,725,407	(61,636)	3,663,771
Expenses:			
Program services	3,008,600	-	3,008,600
General and administrative	<u>477,916</u>	<u>-</u>	<u>477,916</u>
Total Expenses	<u>3,486,516</u>	<u>-</u>	<u>3,486,516</u>
Changes in Net Assets	238,891	(61,636)	177,255
Net Assets, beginning	<u>2,359</u>	<u>246,594</u>	<u>248,953</u>
Net Assets, ending	\$ <u>241,250</u>	\$ <u>184,958</u>	\$ <u>426,208</u>

See accompanying notes to financial statements.

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

Year Ended June 30, 2024

	Program Services	General and Administrative	Total
Salaries and wages	\$ 1,573,536	\$ 276,446	\$ 1,849,982
Employee benefits	469,961	82,934	552,895
Professional fees	363,500	19,800	383,300
Purchased services	260,601	-	260,601
Building rent	160,160	-	160,160
Interest	-	66,925	66,925
Supplies	47,406	-	47,406
Parent Activities	42,633	-	42,633
Consulting fees	-	42,000	42,000
Incentives	36,505	-	36,505
Training	23,338	-	23,338
Travel	20,944	-	20,944
Emergency needs for clients	18,698	-	18,698
Other	12,571	5,674	18,245
Repairs and maintenance	10,149	5,139	15,288
License fees	12,175	-	12,175
Utilities	8,923	-	8,923
Dues and subscriptions	6,050	-	6,050
Equipment rent	1,408	-	1,408
	<u>\$ 3,068,558</u>	<u>\$ 498,918</u>	<u>\$ 3,567,476</u>

See accompanying notes to financial statements.

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

Year Ended June 30, 2023

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	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 1,662,418	\$ 262,820	\$ 1,925,238
Employee benefits	447,399	78,846	526,245
Professional fees	297,194	18,525	315,719
Purchased services	256,957	5	256,962
Emergency needs for clients	113,214	-	113,214
Building rent	83,744	-	83,744
Interest	-	68,636	68,636
Parent Activities	43,478	-	43,478
Consulting fees	-	42,000	42,000
Incentives	23,553	-	23,553
Travel	16,137	-	16,137
Supplies	15,493	-	15,493
Training	13,509	-	13,509
License fees	10,769	-	10,769
Utilities	8,972	-	8,972
Other	3,945	2,298	6,243
Dues and subscriptions	5,300	-	5,300
Minor Equipment	4,955	-	4,955
Repairs and maintenance	-	4,786	4,786
Equipment rent	1,563	-	1,563
	<u>\$ 3,008,600</u>	<u>\$ 477,916</u>	<u>\$ 3,486,516</u>

See accompanying notes to financial statements.

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

Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 209,534	\$ 177,255
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Line of credit discount - Palomar Health	66,925	68,636
Changes in operating assets and liabilities:		
Grants receivable	(530,798)	192,308
Prepaid expenses	(235)	(236)
Accounts payable - Palomar Health	364,490	(49,611)
Accounts payable - other	<u>(2,062)</u>	<u>(533)</u>
Net Cash Provided by Operating Activities	107,854	387,819
Cash Flows Used by Financing Activities:		
Net activity on line of credit - Palomar Health	<u>(120,000)</u>	<u>(120,000)</u>
Net Change in Cash	(12,146)	267,819
Cash, beginning	<u>2,267,634</u>	<u>1,999,815</u>
Cash, ending	<u>\$ 2,255,488</u>	<u>\$ 2,267,634</u>
Supplemental Disclosures of Noncash Financing Activities:		
Interest relieved from restrictions as contribution	<u>\$ 66,925</u>	<u>\$ 68,636</u>

See accompanying notes to financial statements.

# PALOMAR HEALTH DEVELOPMENT, INC.

## Notes to Financial Statements

Years Ended June 30, 2024 and 2023

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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 (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, 2024 and 2023. 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, 2024 and 2023, 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 credit losses experienced in the past, and establish an allowance for credit losses for uncollectible amounts. Management believes all receivables are fully collectible. Therefore, no allowance for credit losses 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, 2024 and 2023

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#### **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.

##### New Accounting Standard

Effective July 1, 2023, the Organization adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This update requires the use of a forward-looking expected credit loss model for instruments within its scope, including accounts receivable, and replaces the previous incurred loss impairment model. The expected credit loss model requires management to estimate current expected credit losses over the lifetime of the assets by considering all reasonable and supportable information, including historical experience, current conditions, and reasonable and supportable forecasts affecting collectability. Management has analyzed provisions contained in Topic 326 and determined that there is no impact on net assets as of July 1, 2023, due to the adoption of the new policy.

##### 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, 2024 and 2023, 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**, 2024, 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.

## PALOMAR HEALTH DEVELOPMENT, INC.

### Notes to Financial Statements

Years Ended June 30, 2024 and 2023

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#### Note 2 - Concentrations of Credit Risk, continued

##### 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, 2025. The Healthy Development Services Program, funded by the Commission, provided 52% and 45% of the Organization's grant revenue for the years ended June 30, 2024 and 2023, respectively, and 40% and 62% of the Organization's grants receivable at June 30, 2024 and 2023, respectively.

The Organization and the Commission entered into an agreement to provide targeted home visiting initiative services. The contract term is through June 30, 2025. The First Five First Steps, funded by the Commission, provided 38% and 23% of the Organization's grant revenue for the years ended June 30, 2024 and 2023, respectively, and 52% and 25% of the Organization's grants receivable at June 30, 2024 and 2023, respectively.

The Organization and the San Diego County Sheriff's Department (the Department) entered into an agreement to provide victim services. The contract term is through December 31, 2024. The Victim Services Program, funded by the Department, was 9% of the Organization's grants receivable at June 30, 2024 and 2023.

#### 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, 2024, the available credit limit on the line of credit is approximately \$1,700,000. 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>2024</u>	<u>2023</u>
Cash	\$ 2,255,488	\$ 2,267,634
Grants receivable	<u>1,131,684</u>	<u>600,886</u>
Total financial assets	3,387,172	2,868,520
Less amounts restricted by donor with purpose restrictions	<u>(15,121)</u>	<u>(15,706)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,372,051</u>	<u>\$ 2,852,814</u>



## PALOMAR HEALTH DEVELOPMENT, INC.

### Notes to Financial Statements

Years Ended June 30, 2024 and 2023

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#### Note 4 - Net Assets

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

	2024	2023
Interest on note payable to PH	\$ 102,327	\$ 169,252
Child Sexual Abuse Program	14,877	14,877
Sexual Assault Response Team Staff Ed.	244	829
	<u>\$ 117,448</u>	<u>\$ 184,958</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, 2024 and 2023, interest on the note payable to PH of \$66,925 and \$68,636 were released from donor restrictions, respectively.

#### 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, 2024 and 2023, were \$3,629,313 and \$3,516,254, respectively. At June 30, 2024 and 2023, the amount due to PH was \$1,071,066 and \$706,576, respectively.

##### Note Payable and Line of Credit

The Organization has a note payable from PH that expires 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, 2024 and 2023, the amount due to PH related to this agreement was \$1,683,571 and \$1,736,646, 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 \$66,925 and \$68,636 is reported in the statements of activities for the years ended June 30, 2024 and 2023, respectively. The unamortized discount for this agreement was \$102,327 and \$169,252, for the years ended June 30, 2024 and 2023, respectively.

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

#### Note 6 - Operating Lease

The Organization reimburses PH for building space related to the First 5 program. There is no formal lease agreement and the activity is structured on a month-to-month basis. Rent expense was \$160,160 and \$83,744 for the years ended June 30, 2024 and 2023, respectively.

#### Note 7 – Subsequent Event

During October 2024, the Organization fully paid off the line of credit.