

**INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS
OF
PALOMAR FAMILY COUNSELING SERVICE, INC.
JUNE 30, 2020 AND 2019**

PALOMAR FAMILY COUNSELING SERVICE, INC.
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JUNE 30, 2020 AND 2019

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Covell, Jani & Pasch^{LLP}



CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Directors of
Palomar Family Counseling Service, Inc.
Escondido, California

We have audited the accompanying financial statements of Palomar Family Counseling Service, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palomar Family Counseling Service, Inc. as of June 30, 2020 and 2019, 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.

Covell, Jani & Pasch LLP

Escondido, California

February 26, 2021

PALOMAR FAMILY COUNSELING SERVICE, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

ASSETS			
		2020	2019
Current Assets			
Cash and cash equivalents	\$	1,159,752	\$ 663,969
Accounts receivable		428,621	461,343
Prepaid expenses		2,900	2,118
TOTAL CURRENT ASSETS		<u>1,591,273</u>	<u>1,127,430</u>
Property and equipment, net		<u>1,263,431</u>	<u>1,179,966</u>
Other Assets			
Investment, endowment (restricted)		58,824	60,952
Deferred loan cost, net		4,342	4,921
Refundable deposits		200	1,650
TOTAL OTHER ASSETS		<u>63,366</u>	<u>67,523</u>
TOTAL ASSETS		<u>\$ 2,918,070</u>	<u>\$ 2,374,919</u>
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	\$	5,979	\$ 8,900
Refundable advance		442,324	-
Accrued payroll liabilities		135,697	110,080
Long-term debt, current portion		21,604	20,653
TOTAL CURRENT LIABILITIES		<u>605,604</u>	<u>139,633</u>
Long-term Liabilities			
Long-term debt, noncurrent portion		<u>327,937</u>	<u>349,526</u>
TOTAL LONG-TERM LIABILITIES		<u>327,937</u>	<u>349,526</u>
TOTAL LIABILITIES		<u>933,541</u>	<u>489,159</u>
Net Assets			
Without donor restrictions		1,924,706	1,820,413
With donor restrictions		59,823	65,347
TOTAL NET ASSETS		<u>1,984,529</u>	<u>1,885,760</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 2,918,070</u>	<u>\$ 2,374,919</u>

See independent auditor's report and notes to financial statements

PALOMAR FAMILY COUNSELING SERVICE, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	Year Ended June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contract service revenue	\$ 3,264,375	\$ -	\$ 3,264,375
Counseling service revenue	524,009	-	524,009
Grant revenue	197,176	-	197,176
Donations	5,096	-	5,096
Interest and other income	3,521	-	3,521
Unrealized gain (loss) on investments	-	(2,129)	(2,129)
Total Revenue and Support	<u>3,994,177</u>	<u>(2,129)</u>	<u>3,992,048</u>
Net Assets Released from Restrictions			
Contract service revenue	3,000	(3,000)	-
Donations	395	(395)	-
Total Net Assets Released from Restrictions	<u>3,395</u>	<u>(3,395)</u>	<u>-</u>
	<u>3,997,572</u>	<u>(5,524)</u>	<u>3,992,048</u>
Costs and Expenses			
Program services	3,256,055	-	3,256,055
General and administrative	637,224	-	637,224
Total Cost and Expenses	<u>3,893,279</u>	<u>-</u>	<u>3,893,279</u>
Change in Net Assets	104,293	(5,524)	98,769
Net assets at Beginning of Year	<u>1,820,413</u>	<u>65,347</u>	<u>1,885,760</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,924,706</u>	<u>\$ 59,823</u>	<u>\$ 1,984,529</u>

	Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contract service revenue	\$ 3,171,983	\$ 5,000	\$ 3,176,983
Counseling service revenue	545,666	-	545,666
Donations	2,987	1,190	4,177
Interest and other income	3,187	-	3,187
Unrealized gain (loss) on investments	-	(581)	(581)
Total Revenue and Support	<u>3,723,823</u>	<u>5,609</u>	<u>3,729,432</u>
Net Assets Released from Restrictions			
Contract service revenue	9,000	(9,000)	-
Donations	3,206	(3,206)	-
Total Net Assets Released from Restrictions	<u>12,206</u>	<u>(12,206)</u>	<u>-</u>
	<u>3,736,029</u>	<u>(6,597)</u>	<u>3,729,432</u>
Costs and Expenses			
Program services	3,185,018	-	3,185,018
General and administrative	557,403	-	557,403
Total Cost and Expenses	<u>3,742,421</u>	<u>-</u>	<u>3,742,421</u>
Change in Net Assets	(6,392)	(6,597)	(12,989)
Net assets at Beginning of Year	<u>1,826,805</u>	<u>71,944</u>	<u>1,898,749</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,820,413</u>	<u>\$ 65,347</u>	<u>\$ 1,885,760</u>

See independent auditor's report and notes to financial statements

PALOMAR FAMILY COUNSELING SERVICE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	Program Services	General and Administrative	Total
Wages and Employee Benefits			
Salaries	\$ 2,303,361	\$ 415,431	\$ 2,718,792
Payroll taxes	204,375	36,861	241,236
Health insurance	155,104	27,974	183,078
Worker compensation	15,672	2,827	18,499
Life AD&D and LTD	3,006	542	3,548
Vacation benefits	96,610	17,424	114,034
Retirement benefit matching	38,994	7,033	46,027
Total Wages and Employee Benefits	<u>2,817,122</u>	<u>508,092</u>	<u>3,325,214</u>
Other Expenses			
Advertising	5,296	955	6,251
Bank charges	1,612	291	1,903
Board and employee events	-	3,586	3,586
Consulting and contract services	100,650	1,166	101,816
Depreciation and amortization	-	48,372	48,372
Dues and subscriptions	2,350	424	2,774
Fingerprinting, TB, immunization	1,834	331	2,165
Gift cards	1,200	-	1,200
Insurance	23,811	4,295	28,106
Interest	-	15,620	15,620
Legal and accounting	9,129	1,646	10,775
IT services	19,820	3,575	23,395
Maintenance	55,398	9,992	65,390
Office supplies	58,550	10,560	69,110
Payroll service fees	16,162	2,915	19,077
Postage	1,869	337	2,206
Printing	6,317	1,139	7,456
Program supplies	18,903	-	18,903
Rent-archives	4,014	724	4,738
Rent-Escondido	-	3,000	3,000
Rent-Poway	3,939	711	4,650
Taxes and license fees	3,614	652	4,266
Telephone	46,039	8,303	54,342
Training meetings	11,456	2,066	13,522
Travel	18,419	3,322	21,741
Utilities	28,551	5,150	33,701
Total Other Expenses	<u>438,933</u>	<u>129,132</u>	<u>568,065</u>
	<u>\$ 3,256,055</u>	<u>\$ 637,224</u>	<u>\$ 3,893,279</u>

See independent auditor's report and notes to financial statements

PALOMAR FAMILY COUNSELING SERVICE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	General and Administrative	Total
Wages and Employee Benefits			
Salaries	\$ 2,242,088	\$ 365,598	\$ 2,607,686
Payroll taxes	196,322	32,012	228,334
Health insurance	146,630	23,910	170,540
Worker compensation	7,943	1,295	9,238
Life AD&D and LTD	2,904	474	3,378
Vacation benefits	111,494	18,180	129,674
Retirement benefit matching	35,507	5,790	41,297
Total Wages and Employee Benefits	<u>2,742,888</u>	<u>447,259</u>	<u>3,190,147</u>
Other Expenses			
Advertising	3,333	543	3,876
Bank charges	1,555	254	1,809
Board and employee events	-	3,713	3,713
Consulting and contract services	101,850	365	102,215
Depreciation and amortization	-	33,343	33,343
Dues and subscriptions	907	148	1,055
Employee longevity awards	-	925	925
Fingerprinting, TB, Immunization	2,093	341	2,434
Flex funds	2,500	-	2,500
Gift cards	1,550	-	1,550
Insurance	25,607	4,176	29,783
Interest	-	16,540	16,540
Legal and accounting	8,550	1,394	9,944
IT services	12,555	2,047	14,602
Maintenance	39,620	6,461	46,081
Office supplies	59,072	9,632	68,704
Payroll service fees	12,652	2,063	14,715
Postage	1,454	237	1,691
Printing	7,901	1,288	9,189
Program supplies	15,743	-	15,743
Rent-archives	4,822	786	5,608
Rent-Escondido	-	3,000	3,000
Rent-Poway	13,714	2,236	15,950
Taxes and license fees	6,048	986	7,034
Telephone	53,060	8,652	61,712
Training meetings	4,972	811	5,783
Travel	29,509	4,812	34,321
Utilities	33,063	5,391	38,454
Total Other Expenses	<u>442,130</u>	<u>110,144</u>	<u>552,274</u>
Total Expenses	<u><u>\$ 3,185,018</u></u>	<u><u>\$ 557,403</u></u>	<u><u>\$ 3,742,421</u></u>

See independent auditor's report and notes to financial statements

PALOMAR FAMILY COUNSELING SERVICE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 98,769	\$ (12,989)
Adjustments to reconcile change in net assets provided by operating activities:		
Unrealized (gain) loss on investments	2,129	581
Depreciation and amortization	48,372	33,343
(Increase) decrease in operating assets:		
Accounts receivable	32,722	33,333
Prepaid expense	(782)	(49)
Other current assets	1,450	-
Increase (decrease) in operating liabilities:		
Accounts payable	(2,921)	(36)
Accrued liabilities	442,324	-
Accrued payroll expense	25,616	(19,695)
Total adjustments	<u>548,910</u>	<u>47,477</u>
Net cash provided by operating activities	<u>647,679</u>	<u>34,488</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(131,257)</u>	<u>(14,841)</u>
Net cash used in investing activities	<u>(131,257)</u>	<u>(14,841)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Cash paid on long-term debt	<u>(20,639)</u>	<u>(19,719)</u>
Net cash provided by financing activities	<u>(20,639)</u>	<u>(19,719)</u>
NET INCREASE (DECREASE) IN CASH	495,783	(72)
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>663,969</u>	<u>664,041</u>
CASH AND EQUIVALENTS, END OF YEAR	<u><u>\$ 1,159,752</u></u>	<u><u>\$ 663,969</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
CASH PAID DURING THE YEAR FOR:		
Interest expense	<u>\$ 15,620</u>	<u>\$ 16,540</u>

See independent auditor's report and notes to financial statements

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

A. ORGANIZATION

Palomar Family Counseling Service, Inc. is a California not-for-profit public benefit corporation (the "Organization") that provides a variety of mental health services at its offices in Escondido, Vista, Fallbrook, Poway, and on-site at public schools, preschool centers, and youth activity organizations across North San Diego County.

The mission of the Organization is to support and strengthen children, youth, adults, families, schools and communities. The agency mission is expressed through the provision of a full range of comprehensive and integrated services that include prevention, education, early intervention, assessment, individual and family counseling, crisis response, and professional training. To implement its mission, the Organization has structured activities in four main areas. These four areas are comprised of mental health assessment and treatment services, community site-based outreach services, prevention and education programs, and court ordered treatment services.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of New Accounting Standard

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

In June 2018, the FASB issued ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard clarified and improved current guidance by providing criteria for determining whether a nonprofit is receiving commensurate value in return for the resources transferred. The outcome of the analysis determines whether the contract or grant constitutes either a contribution or an exchange transaction (i.e., Topic 606). The guidance also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. As a result, not-for-profit entities are to account for most grants as donor-restricted conditional contributions rather than as exchange transactions because the customer does not receive commensurate value for the consideration received by the Organization; rather, the purpose of these arrangements is for the benefit of the general public. Therefore, management concluded that the agreements are conditional due to rights of return/release and barriers to entitlement to funds. Revenue is recognized when the condition is satisfied. Because the nature of conditions is either based on incurring qualifying expenses or satisfying a milestone or other deliverable, the pattern of revenue recognition remained consistent with previous years. ASU 2018-08 has been adopted by the Organization for the year ended June 30, 2020 and under the prospective approach, has determined that there was no material change in the revenue recognition for grants and contracts.

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The Organization's accounting records and the accompanying financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles (GAAP), whereby all revenue is recognized when earned rather than received and expenses are recognized when incurred rather than when paid, and accordingly, reflect all significant receivables, payables and other liabilities.

Financial Statement Presentation

The financial statements are presented in accordance with the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Non-For-Profit Entities*. Under ASU 2016-14, the Organization is required to report information regarding its financial position and activities according to two classes of net assets:

Net assets without donor restriction: net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's Board of Directors.

Net assets with donor restriction: 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, where by the donor has stipulated the funds be maintained in perpetuity.

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.

Cash and Cash Equivalents

The Organization considers all unrestricted investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable consist of balances due for services provided pursuant to written and verbal contracts with various public and private agencies. The Organization evaluates the collectability of receivables on a regular and ongoing basis and they are written off when they are determined to be uncollectible. Management considers all accounts receivable to be collectible and no allowance for doubtful accounts has been provided as of June 30, 2020 and 2019.

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Property and Equipment

Acquisitions of property and equipment of \$1,000 or more are capitalized. Property and equipment are stated at cost, or, if donated, at the approximate fair market value at the date of donation. Expenditures for maintenance, repairs, and improvements, which do not materially extend the useful lives of the assets, are charged to operations in the periods incurred. Equipment purchased as part of and with grant or contract funds is generally expensed during the grant or contract period. Depreciation is provided on the straight-line method over the estimated useful lives of the assets as follows:

<u>Asset</u>	<u>Life</u>
Buildings and improvements	5 - 40 years
Furniture and equipment	5 - 10 years
Land	Not depreciated

Impairment of Long-Lived Assets

The Organization evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value.

Income Tax

The Organization is a not-for-profit public benefit corporation exempt from income tax under Section 501(c)(3) organization of the Internal Revenue Code and Section 23701(d) of the California State Revenue and Taxation Code, except for unrelated business activities or unrelated business income. During the years ended June 30, 2020 and 2019, there were no unrelated business activities or unrelated business income.

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other 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. When restrictions are satisfied in the same accounting period that the contribution is received, both the revenue and the related expense are reported in the unrestricted net asset class.

Contributed Goods and Services

The Organization records contributed goods and services when received at estimated fair market value. No amounts for contributed goods and services have been reflected in the financial statements for the years ended June 30, 2020 and 2019.

Functional Allocation of Expenses

The costs of providing program services have been summarized on a functional basis in the Statement of Functional Expenses. Based on estimates made by management, costs based on contract guidelines have been allocated between program services and general and administrative expenses at 84.72% and 15.28%, respectively, for the year ended June 30, 2020 and 85.98% and 14.02%, respectively for the year ended June 30, 2019.

Advertising

The Organization expenses advertising costs as they are incurred. The total advertising expense for the years ended June 30, 2020 and 2019 was \$6,251 and \$3,876, respectively.

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

C. AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets as of June 30, 2020, reduced by amounts not available for general use because of donor-imposed restrictions within one year of the statement of financial position date.

Financial assets at year-end:

Cash and cash equivalents	\$ 1,159,752
Investment	<u>58,824</u>
Total financial assets	1,218,576

Less amounts not available to be used within one year:

Investment endowment	(58,824)
Restricted by donor with purpose restrictions	<u>(1,000)</u>

Financial assets available to meet general expenditures
over the next twelve months

\$1,158,752

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing program activities as well as the conduct of services undertaken to support those activities to be general expenditures.

D. CASH FLOW INFORMATION

The Organization did not have any non-cash financing transactions for the years ended June 30, 2020 and 2019.

E. INVESTMENTS

The Organization accounts for its investments with a readily determinable market value by recording and reporting those investments at fair market value.

Endowment Funds: The Organization's endowment fund consists of a permanently restricted endowment as referenced in Note K. The fund is valued based on the determinable fair market value of securities included. Gains and losses are included in the statement of activities in the with donor restrictions column.

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

F. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at June 30:

	<u>2020</u>	<u>2019</u>
Buildings and improvements	\$ 1,478,812	\$ 1,379,839
Furniture, fixtures and equipment	119,825	87,540
Land	<u>470,589</u>	<u>470,589</u>
	2,069,226	1,937,968
Less: accumulated depreciation	<u>(805,795)</u>	<u>(758,002)</u>
	<u>\$ 1,263,431</u>	<u>\$ 1,179,966</u>

Depreciation expense for the years ended June 30, 2020 and 2019 was \$47,793 and \$32,765.

G. DEFERRED LOAN COST

Deferred loan cost consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Loan closing costs	\$ 5,788	\$ 5,788
Loan closing costs – refinanced in prior year	7,753	7,753
Less: accumulated amortization	<u>(9,199)</u>	<u>(8,620)</u>
	<u>\$ 4,342</u>	<u>\$ 4,921</u>

Loan closing costs are being amortized over 10 years using the straight-line method of accounting (term of the related loan agreement). During the years ended June 30, 2020 and 2019, amortization expense was \$579 and \$578, respectively.

H. LINE OF CREDIT

The Organization had a line of credit with First Republic Bank in the amount of \$200,000 at the U.S. Prime rate plus .750% per annum. The line of credit expired December 19, 2020. Calculated interest is payable monthly. The line is collateralized by the Organization's assets. No balance was outstanding under the line of credit as of June 30, 2020 and 2019.

The Organization renewed the line of credit with First Republic Bank in November 2020 in the amount of \$200,000 at the U.S. Prime rate plus .50% per annum. The line of credit expires December 19, 2021. Calculated interest is payable monthly. The line is collateralized by the Organization's assets.

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

I. LONG-TERM DEBT

Long-term debt consists of the following at June 30:

	<u>2020</u>	<u>2019</u>
Note payable to bank in monthly installments of \$3,022 including interest at 4.25% maturing December 2027, with a lump payment of \$165,837. Secured by real property.	\$ 349,541	\$ 370,179
Total long-term debt	349,541	370,179
Less: current portion	<u>(21,604)</u>	<u>(20,653)</u>
Noncurrent portion	<u>\$ 327,937</u>	<u>\$ 349,526</u>

Annual maturities of long-term debt outstanding at June 30, 2020 are as follows:

2021	\$ 21,604
2022	22,553
2023	23,545
2024	24,548
2025	25,658
2026 and thereafter	<u>231,633</u>
Total annual maturities	<u>\$ 349,541</u>

The loan agreement includes provisions that the Organization maintain an unrestricted EBIDA annually of not less than negative \$25,000 and unencumbered liquid assets of not less than \$250,000. As of June 30, 2020 and 2019, the Organization was in compliance with the loan covenants.

The total approximate book value of the collateralized real property was approximately \$135,304 and \$143,941 at June 30, 2020 and 2019, respectively.

J. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash deposits and investment securities in bank and financial institutions. The Organization maintains cash and cash equivalents and short and long-term investments with major banks and financial institutions. Accounts at banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. The Organization had a balance of \$1,028,344 and \$505,922 in excess of the FDIC coverage for the years ended June 30, 2020 and 2019, respectively.

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

K. RESTRICTED NET ASSETS

Changes in restricted net assets for the year ended June 30, 2020 are as follows:

<u>Purpose restrictions</u>	<u>2019</u>	<u>Additions</u>	<u>Released</u>	<u>2020</u>
City of Poway	\$ 4,000	\$ -	\$ (3,000)	\$ 1,000
S.D. Employees Charitable Org.	395	-	(395)	-
Total Temporarily Restricted	<u>\$ 4,395</u>	<u>\$ -</u>	<u>\$ (3,395)</u>	<u>\$ 1,000</u>

Changes in restricted net assets for the year ended June 30, 2019 are as follows:

<u>Purpose restrictions</u>	<u>2018</u>	<u>Additions</u>	<u>Released</u>	<u>2019</u>
City of Poway	\$ 2,500	\$ 5,000	\$ (3,500)	\$ 4,000
Country Friends	1,535	-	(1,535)	-
Escondido Charitable Foundation	3,000	-	(3,000)	-
Escondido Rotary	876	-	(876)	-
Nordson	2,500	-	(2,500)	-
S.D. Employees Charitable Org.	-	1,190	(795)	395
Total Temporarily Restricted	<u>\$ 10,411</u>	<u>\$ 6,190</u>	<u>\$ (12,206)</u>	<u>\$ 4,395</u>

Permanently Restricted

A contribution totaling \$225,000 was received on June 13, 1997 in the form of a bequest from Mr. Ernest Allen, who requested the funds be used for programs in Escondido and Valley Center, California. The original contribution was recognized as \$50,000 being permanently restricted and the remaining \$175,000 temporarily restricted.

The permanently restricted Allen Bequest Endowment Fund was established by the Organization in honor of Mr. Allen and is currently held by the San Diego Foundation.

Changes in endowment net assets as of June 30, 2020 are as follows:

Value at June 30, 2019	\$ 60,952
Change in net assets	<u>(2,129)</u>
Value at June 30, 2020	<u>\$ 58,823</u>

Changes in endowment net assets as of June 30, 2019 are as follows:

Value at June 30, 2018	\$ 61,533
Change in net assets	<u>(581)</u>
Value at June 30, 2019	<u>\$ 60,952</u>

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K. RESTRICTED NET ASSETS (CONTINUED)

Net assets with donor restrictions consists of the following from above at June 30:

	<u>2020</u>	<u>2019</u>
Temporarily restricted	\$ 1,000	\$ 4,395
Permanently restricted	<u>58,823</u>	<u>60,952</u>
	<u>\$ 59,823</u>	<u>\$ 65,347</u>

L. CONTRACT SERVICE REVENUE

Similarly to contributions, contract service revenue and the related program services expenses are classified as unrestricted net assets since the restrictions are satisfied in the same accounting period that the revenue is received.

Public Contracts -The Organization had the following contracts for the years ended June 30:

San Diego County – CSED: contract with the San Diego County Department of Mental Health and Human Services to provide mental outpatient services and other developmentally appropriate clinical interventions to seriously emotionally disturbed (SED) children age birth through five years and their families. Initial grant contract terms covered a one-year period with an additional six-year extension through June 30, 2020. Award amounts totaled \$468,590 and \$468,590 for the years ended June 30, 2020 and 2019. Total payments received were \$432,957 and \$452,101 for the years ended June 30, 2020 and 2019, respectively.

San Diego County – FSP: contract with the San Diego County Department of Health and Human Services to provide a certified outpatient behavioral health program and provide a full range of Title 9 out-patient diagnostic and treatment services for children, adolescents, and young adults up to age 21 who are seriously emotionally disturbed. The program in its entirety is a Full Service Partnership (FSP) model that offers integrated services with an emphasis on whole person wellness and promotes access to medical, social, rehabilitative, and other community services and supports needed. Initial grant contract terms covered a one-year period with an additional four year extension through June 30, 2024. Award amount totaled \$1,617,377 and \$1,470,343 for the years ended June 30, 2020 and 2019, respectively. Total payments received were \$1,370,424 and \$1,401,258 for the years ended June 30, 2020 and 2019, respectively.

The Organization requested and received startup/refresh funding in the amount of \$147,032 for repairs and maintenance, small equipment, office supplies and staff development and training for the year ended June 30, 2020.

The county contracts listed above are funded through federal funding. However, they are exempt from single or program specific audit that are required for non-federal entities that expend \$750,000 or more in accordance with the U.S. Office of Management and Budget (OMB) Circular A-133.

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L. CONTRACT SERVICE REVENUE (CONTINUED)

San Diego County – North Coastal PEI: contract with the San Diego County Department of Health and Human Services to provide social-emotional health evidence-based prevention and early intervention (PEI) services for preschool and elementary school age children at public schools in the Oceanside and Vista Unified School Districts. The contract terms were for July 1 through June 30 of each fiscal year. Award amounts totaled \$692,258 and \$692,258 for the years ended June 30, 2020 and 2019, respectively. Total payments received were \$692,258 and \$692,258 for the years ended June 30, 2020 and 2019, respectively.

Healthy Bodies, Healthy Minds: contracts with the Fallbrook Regional Health District to provide the Healthy Bodies, Healthy Minds program to the district community. The contract terms were for July 1 through June 30 of each fiscal year. Award amounts totaled \$67,423 and \$82,950 for the years ended June 30, 2020 and 2019, respectively. Total payments received were \$67,423 and \$82,950 for the years ended June 30, 2020 and 2019, respectively.

The two contracts listed above are not provided from federal funds, so are not subject to the audit requirements of the U.S. Office of Management and Budget Circular A-133.

Vista CDGB-YRD: contracts with the City of Vista to provide counseling and case management services to low-income at-risk youth, children and their families. The contract terms were for July 1 through June 30 of each fiscal year. Award amounts totaled \$14,300 and \$13,607 for the years ended June 30, 2020 and 2019, respectively. Total payments received were \$14,300 and \$13,607 for the years ended June 30, 2020 and 2019, respectively.

The contract listed above is provided from federal funds but is under the audit requirement threshold of the U.S. Office of Management and Budget Circular A-133.

The Fallbrook and Vista contracts referenced above are subject to bidding and funding annually and biannually, respectively. The San Diego County contracts are renewed annually.

Project Fees - The Organization also obtained funding under various project fee contracts totaling \$539,981 and \$529,809 for the years ended June 30, 2020 and 2019, respectively. The project fee contracts are principally provided to various public and private school districts in the surrounding San Diego County area to provide family counseling and mental health services. Contracts are generally awarded annually by the school districts to the Organization. Individual school district project fee contracts are renewed annually.

None of the project fee contracts are subject to the audit requirements of the U.S. Office of Management and Budget Circular A-133.

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M. REVENUE CONCENTRATION

The Organization receives revenue for several contracts from San Diego County, which provided \$2,495,639, or approximately 67% of the Organization's total revenue for the year ended June 30, 2020. Accounts receivable from San Diego County was \$368,429 at June 30, 2020.

N. RETIREMENT PLANS

The Organization offers a voluntary 403(b) savings plan for management employees qualified under Internal Revenue Code Section 403(b) and a tax deferred annuity for non-management employees. The Organization paid \$46,027 and \$41,297 in matching employee contributions for eligible participants in the 403(b) plan., for the years ended June 30, 2020 and 2019, respectively.

O. LEASING ARRANGEMENTS

The Organization had a lease agreement with an unrelated party for its office in Poway, California for \$1,450 per month, that expired in July 2018. The Organization paid rent at this location on a month-to-month basis through July 2019, at which time the Organization began using a new location in Poway. Total rent expense for the years ended June 30, 2020 and 2019 was \$250 and \$15,950, respectively.

A facility use agreement was signed with an unrelated party effective August 1, 2019 at a new location in Poway for \$400 per month, expiring July 31, 2020 with an annual option to renew. Total rent expense for the years ended June 30, 2020 and 2019 was \$4,400 and \$0, respectively.

The Organization has a lease agreement for garage storage with an unrelated party through December 2019 for \$250 per month. The lease was renewed on the same terms through December 2020. Total rent expense for the years ended June 30, 2020 and 2019 was \$3,000 and \$3,000, respectively.

The Organization also pays for records storage and shredding. Total expense for these services for the years ended June 30, 2020 and 2019 was \$4,738 and \$5,608.

The remaining lease commitments at June 30 are as follows:

2021	\$	1,900
2022		-
2023		-
2024		-
2025 and thereafter		-
		<u>\$ 1,900</u>

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P. COVID-19 PANDEMIC

During March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

With the outbreak, the people and communities served by the non-profit industry have experienced an increased demand for assistance. The Organization, while complying with government mandates, is partnering with many state and local officials to continue to serve the people during the crisis.

Q. PAYCHECK PROTECTION PROGRAM LOAN/ADOPTION OF ACCOUNTING POLICY

On April 20, 2020, the Organization received loan proceeds in the amount of \$629,500 under the Paycheck Protection Program ("PPP"). Established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), the PPP provides for loans to qualifying businesses in amounts up to 2.5 times the business's average monthly payroll expenses. PPP loans and accrued interest are forgivable after a "covered period" (eight or 24 weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries during the covered period. Any unforgiven portion of a PPP loan is payable over two or five years at an interest rate of 1%, with a deferral of payments for 10 months after the end of the covered period. The Organization applied for forgiveness on December 11, 2020, but has not received notification on their application.

Management and the Board of Directors are of the opinion that \$559,336 of the PPP loan funds received will be forgiven under the present terms of the PPP due to the reduction of payroll levels. The Organization plans to return the unforgiven portion of \$70,164. Accordingly, the funds have been accounted for in accordance with FASB ASC 958-605 whereby the PPP loan funds are treated as a conditional governmental grant and recorded as a refundable advance. As the qualifying payroll expenses are incurred, the Organization recognizes contribution revenue and decreases the refundable advance. For the year ending June 30, 2020, \$187,176 of the \$629,500 funds received is included in grant revenue in the statement of activities, leaving a balance of \$442,324 of which \$372,160 will be recorded as revenue as the related payroll expenses are incurred in the next fiscal year and \$70,164 is expected to be returned.

The SBA provided the opportunity, as part of the PPP loan application, to obtain an Economic Injury Disaster Loan Advance (EIDL) up to \$10,000 in order to provide emergency economic relief to businesses that were currently experiencing a temporary loss of revenue. The advance does not have to be repaid. The organization received an EIDL advance in the amount of \$10,000 on April 21, 2020. It is included in grant revenue in the statement of activities.

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R. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 26, 2021, the date the financial statements were available to be issued. Management is not aware of any events that have occurred subsequent to June 30, 2020 that would require adjustment to, or disclosure in the financial statements.