

**INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS
OF
PALOMAR FAMILY COUNSELING SERVICE, INC.
JUNE 30, 2022 AND 2021**

PALOMAR FAMILY COUNSELING SERVICE, INC.
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JUNE 30, 2022 AND 2021

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palomar Family Counseling Service, Inc. as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America

Basis for Opinion

We conducted our audit 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 Family Counseling Service, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 these 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 Family Counseling Service, 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.

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 Family Counseling Service, 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 Family Counseling Service, 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.

Covell, Jami i Pasch LLP

Escondido, California

April 17, 2023

PALOMAR FAMILY COUNSELING SERVICE, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 632,868	\$ 619,884
Accounts receivable	10,008	15,280
Grants receivable	553,884	623,676
Prepaid expenses	8,899	1,857
TOTAL CURRENT ASSETS	1,205,659	1,260,697
Property and equipment, net	1,301,514	1,275,608
Other Assets		
Investment, endowment (restricted)	67,418	72,955
Deferred loan cost, net	8,071	9,230
Refundable deposits	200	200
TOTAL OTHER ASSETS	75,689	82,385
TOTAL ASSETS	\$ 2,582,862	\$ 2,618,690
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 1,042	\$ 8,228
Accrued payroll liabilities	150,050	152,785
Long-term debt, current portion	19,169	18,585
TOTAL CURRENT LIABILITIES	170,261	179,598
Long-term Liabilities		
Long-term debt, noncurrent portion	295,705	314,704
TOTAL LONG-TERM LIABILITIES	295,705	314,704
TOTAL LIABILITIES	465,966	494,302
Net Assets		
Without donor restrictions	2,003,637	1,964,051
With donor restrictions	113,259	160,337
TOTAL NET ASSETS	2,116,896	2,124,388
TOTAL LIABILITIES AND NET ASSETS	\$ 2,582,862	\$ 2,618,690

See independent auditor's report and notes to financial statements

PALOMAR FAMILY COUNSELING SERVICE, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	Year Ended June 30, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contract service revenue	\$ 3,790,121	\$ 90,358	\$ 3,880,479
Counseling service revenue	554,344	-	554,344
Donations	14,483	-	14,483
Interest and other income	3,448	-	3,448
Investment return, net	-	(5,537)	(5,537)
Total Revenue and Support	4,362,396	84,821	4,447,217
Net Assets Released from Restrictions			
Contract service revenue	131,899	(131,899)	-
Total Net Assets Released from Restrictions	131,899	(131,899)	-
	4,494,295	(47,078)	4,447,217
Costs and Expenses			
Program services	3,595,842	-	3,595,842
General and administrative	858,867	-	858,867
Total Costs and Expenses	4,454,709	-	4,454,709
Change in Net Assets	39,586	(47,078)	(7,492)
Net assets at Beginning of Year	1,964,051	160,337	2,124,388
NET ASSETS AT END OF YEAR	\$ 2,003,637	\$ 113,259	\$ 2,116,896

	Year Ended June 30, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contract service revenue	\$ 3,171,705	\$ 182,677	\$ 3,354,382
Counseling service revenue	561,151	-	561,151
Grant revenue	348,921	-	348,921
Donations	11,258	-	11,258
Interest and other income	4,980	-	4,980
Investment return, net	-	14,132	14,132
Total Revenue and Support	4,098,015	196,809	4,294,824
Net Assets Released from Restrictions			
Contract service revenue	96,295	(96,295)	-
Total Net Assets Released from Restrictions	96,295	(96,295)	-
	4,194,310	100,514	4,294,824
Costs and Expenses			
Program services	3,494,817	-	3,494,817
General and administrative	660,148	-	660,148
Total Costs and Expenses	4,154,965	-	4,154,965
Change in Net Assets	39,345	100,514	139,859
Net assets at Beginning of Year	1,924,706	59,823	1,984,529
NET ASSETS AT END OF YEAR	\$ 1,964,051	\$ 160,337	\$ 2,124,388

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, 2022

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
Wages and Employee Benefits			
Salaries	\$ 2,588,699	\$ 544,686	\$ 3,133,385
Payroll taxes	232,621	48,946	281,567
Health insurance	171,775	36,143	207,918
Worker compensation	22,336	4,700	27,036
Life AD&D and LTD	3,955	832	4,787
Vacation benefits	115,452	24,292	139,744
Retirement benefit matching	49,423	10,399	59,822
Total Wages and Employee Benefits	<u>3,184,261</u>	<u>669,998</u>	<u>3,854,259</u>
Other Expenses			
Advertising	7,885	1,659	9,544
Bank charges	-	3,623	3,623
Board and employee events	-	4,193	4,193
Consulting and contract services	104,526	-	104,526
Depreciation and amortization	-	74,033	74,033
Dues and subscriptions	240	3,626	3,866
Electronic health record	-	8,760	8,760
Employee longevity awards	-	375	375
Fingerprinting, TB, immunization	2,152	522	2,674
Gift cards	1,200	2,200	3,400
Insurance	24,412	5,137	29,549
Interest	-	10,238	10,238
IT services	25,399	5,344	30,743
Legal and accounting	10,517	2,213	12,730
Maintenance	40,511	8,524	49,035
Office equipment lease	22,403	4,714	27,117
Office supplies	25,614	5,389	31,003
Payroll service fees	14,447	3,040	17,487
Postage	2,343	493	2,836
Printing	7,655	1,611	9,266
Program supplies	14,954	2,329	17,283
Relief fund	-	5,060	5,060
Rent-archives	-	5,483	5,483
Rent-Escondido	-	3,050	3,050
Rent-Poway	-	2,400	2,400
Tax and license fees	-	4,526	4,526
Telephone	53,582	11,274	64,856
Training meetings	2,990	600	3,590
Travel	22,028	2,410	24,438
Utilities	28,723	6,043	34,766
Total Other Expenses	<u>411,581</u>	<u>188,869</u>	<u>600,450</u>
	<u>\$ 3,595,842</u>	<u>\$ 858,867</u>	<u>\$ 4,454,709</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, 2021

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
Wages and Employee Benefits			
Salaries	\$ 2,477,741	\$ 397,669	\$ 2,875,410
Payroll taxes	218,426	35,057	253,483
Health insurance	170,495	27,364	197,859
Worker compensation	16,244	2,607	18,851
Life AD&D and LTD	3,338	536	3,874
Vacation benefits	112,379	18,037	130,416
Retirement benefit matching	46,612	7,481	54,093
Total Wages and Employee Benefits	<u>3,045,235</u>	<u>488,751</u>	<u>3,533,986</u>
Other Expenses			
Advertising	3,723	597	4,320
Bank charges	3,131	502	3,633
Board and employee events	-	3,984	3,984
Consulting and contract services	171,721	10,843	182,564
Depreciation and amortization	-	62,663	62,663
Dues and subscriptions	-	5,011	5,011
Employee longevity awards	928	-	928
Fingerprinting, TB, Immunization	1,735	270	2,005
Gift cards	1,200	2,000	3,200
Insurance	26,904	4,318	31,222
Interest	-	12,020	12,020
IT services	18,927	3,038	21,965
Legal and accounting	9,586	1,789	11,375
Maintenance	37,865	6,077	43,942
Office equipment lease	19,014	3,052	22,066
Office supplies	30,158	4,840	34,998
Payroll service fees	13,130	2,107	15,237
Postage	2,631	422	3,053
Printing	6,457	2,037	8,494
Program supplies	12,343	1,301	13,644
Relief fund	-	12,240	12,240
Rent-archives	-	4,683	4,683
Rent-Escondido	-	3,000	3,000
Rent-Poway	-	2,600	2,600
Tax and license fees	-	4,411	4,411
Telephone	53,416	8,573	61,989
Training meetings	1,115	3,305	4,420
Travel	8,018	1,287	9,305
Utilities	27,580	4,427	32,007
Total Other Expenses	<u>449,582</u>	<u>171,397</u>	<u>620,979</u>
Total Expenses	<u>\$ 3,494,817</u>	<u>\$ 660,148</u>	<u>\$ 4,154,965</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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (7,492)	\$ 139,859
Adjustments to reconcile change in net assets provided by operating activities:		
Unrealized (gain) loss on investments	5,537	(14,132)
Depreciation and amortization	74,033	62,663
(Increase) decrease in operating assets:		
Accounts receivable	75,064	(210,335)
Prepaid expense	(7,042)	1,043
Increase (decrease) in operating liabilities:		
Accounts payable	(7,186)	2,249
Accrued liabilities	-	(442,324)
Accrued payroll expense	(2,735)	17,089
Total adjustments	<u>137,671</u>	<u>(583,747)</u>
Net cash provided by operating activities	<u>130,179</u>	<u>(443,888)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(98,781)</u>	<u>(73,923)</u>
Net cash used in investing activities	<u>(98,781)</u>	<u>(73,923)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Cash paid on loan fees	-	(5,805)
Cash paid on long-term debt	<u>(18,414)</u>	<u>(16,252)</u>
Net cash provided by financing activities	<u>(18,414)</u>	<u>(22,057)</u>
NET INCREASE (DECREASE) IN CASH	12,984	(539,868)
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>619,884</u>	<u>1,159,752</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 632,868</u>	<u>\$ 619,884</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
CASH PAID DURING THE YEAR FOR:		
Interest expense	<u>\$ 10,238</u>	<u>\$ 12,020</u>

See independent auditor's report and notes to financial statements

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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

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.

Adoption of Accounting Pronouncement

In September 2020, the FASB issued ASU No. 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets, to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations through enhancements to presentation and disclosure. ASU No. 2020-07 was issued to address certain stakeholders’ concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by not-for-profits, as well as the amount of those contributions used in an entity’s programs and other activities. The standard was effective for the Organization for the year ended June 30, 2022. The adoption of this guidance did not have an impact on the Organization’s financial statements as it did not receive gifts-in-kind for the year ended June 30, 2022.

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:

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (Continued)

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, whereby 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 instruments purchased with a fixed maturity date of three months or less to be cash equivalents for the purposes of the statement of cash flows.

Accounts Receivable

Accounts receivable consist of balances due for services provided pursuant to written and verbal grant 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, 2022 and 2021.

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.

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

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, fixtures 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.

Donated Assets and Services

Contributions of donated non-cash assets are recorded at their fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skill, are provided by entities or persons possessing those skills, and would typically need to be purchased if they were not donated, are recorded at their fair value in the period received. No amounts for contributed goods and services have been reflected in the financial statements for the years ended June 30, 2022 and 2021.

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, 2022 and 2021, there were no unrelated business activities or unrelated business income.

Revenue and Revenue Recognition

For the years ended June 30, 2022 and 2021, the Organization did not have revenue streams that fall under Revenue from Contracts with Customers (Topic 606).

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Revenue Recognition (Continued)

The Organization's revenue streams that are not within the scope of *Revenue Contracts with Customers (Topic 606)*:

Contributions and Grants 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. Grants and 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 grants and 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 as without donor restrictions.

The Organization receives some grants, which are conditional upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as contribution revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Any amounts received prior to incurring qualifying expenditures would be reported as refundable advances in the statement of financial position. The Organization had no conditional contributions at June 30, 2022 and 2021. The Organization had grants receivable in the amount of \$553,884 and \$623,676 at June 30, 2022 and 2021, respectively, for qualifying expenditures that have been incurred, but not yet reimbursed to the Organization.

Functional Allocation of Expenses

The costs of providing program services have been summarized on a functional basis in the statement of functional expenses which report certain categories of expenses that are attributable to more than one program or support functions. Based on estimates made by management, costs based on contract guidelines have been allocated between program services and general and administrative expenses at 82.62% and 17.38%, respectively, for the year ended June 30, 2022, and 86.17% and 13.83%, respectively, for the year ended June 30, 2021. All other expenses are allocated based on management's estimate.

Advertising

The Organization expenses advertising costs as they are incurred. The total advertising expense for the years ended June 30, 2022 and 2021 was \$9,544 and \$4,320, respectively.

**PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

C. AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets as of June 30, 2022, 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	\$ 632,868
Investment	67,418
Accounts receivable	10,008
Grants receivable	<u>553,884</u>
Total financial assets	1,264,178

Less amounts not available to be used within one year:

Investment endowment	(67,418)
Restricted by donor with purpose restrictions	<u>-</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,196,760</u>

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.

As disclosed in Note I, the Organization has a \$200,000 line of credit to support temporary cash flow needs subject to board direction and restrictions.

D. CASH FLOW INFORMATION

The Organization did not have any non-cash financing transactions for the years ended June 30, 2022 and 2021.

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

E. INVESTMENTS

Investments are classified as follows at June 30:

	<u>2022</u>	<u>2021</u>
Investments, without donor restrictions	\$ -	\$ -
Investments, endowment (restricted)	<u>67,418</u>	<u>72,955</u>
	<u>\$ 67,418</u>	<u>\$ 72,955</u>

Investment return, net, consists of the following at June 30:

	<u>2022</u>	<u>2021</u>
Realized and unrealized gains (losses), net	\$ (5,218)	\$ 14,427
Investment management fees	<u>(319)</u>	<u>(295)</u>
	<u>\$ (5,537)</u>	<u>\$ 14,132</u>

F. RECEIVABLES

Receivables consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
<u>Accounts receivable</u>		
Client services	<u>\$ 10,008</u>	<u>\$ 15,280</u>
	<u>\$ 10,008</u>	<u>\$ 15,280</u>
<u>Grants receivable</u>		
Reimbursable grant contracts	<u>\$ 553,884</u>	<u>\$ 623,676</u>
	<u>\$ 553,884</u>	<u>\$ 623,676</u>

Accounts and grants receivable are receivable in less than one year.

G. PROPERTY AND EQUIPMENT

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

	<u>2022</u>	<u>2021</u>
Buildings and improvements	\$ 1,536,417	\$ 1,478,190
Furniture, fixtures and equipment	234,923	185,369
Land	<u>470,589</u>	<u>470,589</u>
	2,241,929	2,143,148
Less: accumulated depreciation	<u>(940,415)</u>	<u>(867,540)</u>
	<u>\$ 1,301,514</u>	<u>\$ 1,275,608</u>

Depreciation expense for the years ended June 30, 2022 and 2021 was \$72,874 and \$61,746.

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

H. DEFERRED LOAN COST

Deferred loan cost consists of the following at June 30:

	<u>2022</u>	<u>2021</u>
Loan closing costs	\$ 19,347	\$ 19,347
Less: accumulated amortization	<u>(11,276)</u>	<u>(10,117)</u>
	<u>\$ 8,071</u>	<u>\$ 9,230</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, 2022 and 2021, amortization expense was \$1,159 and \$917, respectively.

I. 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 .50% per annum. Calculated interest was payable monthly. The line is collateralized by the Organization's assets. The line of credit expired December 19, 2022. On December 14, 2022, the line was renewed for one month until January 19, 2023, and then until February 19, 2024, under the same terms. No balance was outstanding under the line of credit as of June 30, 2022 and 2021.

J. LONG-TERM DEBT

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

	<u>2022</u>	<u>2021</u>
Note payable to the bank in monthly installments of \$2,388 including interest at 3.10% maturing December 2030, with a balloon payment of \$133,491. Secured by real property.	<u>\$ 314,874</u>	<u>\$ 333,289</u>
Total long-term debt	314,874	333,289
Less: current portion	<u>(19,169)</u>	<u>(18,585)</u>
Noncurrent portion	<u>\$ 295,705</u>	<u>\$ 314,704</u>

PALOMAR FAMILY COUNSELING SERVICE, INC.
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J. LONG-TERM DEBT (CONTINUED)

Annual maturities of long-term debt outstanding at June 30, 2022 are as follows:

2023	\$ 19,169
2024	19,772
2025	20,394
2026	21,035
2027	21,969
2028 and thereafter	<u>212,535</u>
Total annual maturities	<u>\$ 314,874</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, 2022 and 2021, the Organization was in compliance with the loan covenants.

The total approximate book value of the collateralized real property was approximately \$118,032 and \$126,668 at June 30, 2022 and 2021, respectively.

K. RESTRICTED NET ASSETS

Changes in restricted net assets for the year ended June 30, 2022 are as follows:

<u>Purpose restrictions</u>	<u>2021</u>	<u>Additions</u>	<u>Released</u>	<u>2022</u>
CARES Act Provider Relief Fund	\$ 26,843	\$ -	\$ (26,843)	\$ -
City of Poway	1,000	2,500	(1,000)	2,500
Coastal Community Foundation Grant	-	3,000	(400)	2,600
Covid Response (Rancho Santa Fe Foundation)	-	15,000	(600)	14,400
Escondido clients (Escondido Community Foundation)	5,760	-	(5,760)	-
Family Resilience Project	-	33,000	(21,926)	11,074
Grandparents Raising Grandchildren (Fallbrook Regional Health District)	11,000	-	(11,000)	-
Laptop purchase (CECO)	-	934	-	934
Neighborhood Reinvestment Prog.	30,272	20,000	(48,702)	1,570
Oceanside Promise, Inc.	-	2,500	(2,003)	497
San Marcos Foundation	1,260	-	(1,260)	-
San Marcos Project (Rancho Santa Fe Foundation)	-	13,424	(1,158)	12,266
Sisters of Saint Joseph	10,000	-	(10,000)	-
Teen Life Skills (Resthaven)	1,247	-	(1,247)	-
Total temporarily restricted	<u>\$ 87,382</u>	<u>\$ 90,358</u>	<u>\$ (131,899)</u>	<u>\$ 45,841</u>

PALOMAR FAMILY COUNSELING SERVICE, INC.
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K. RESTRICTED NET ASSETS (CONTINUED)

Changes in restricted net assets for the year ended June 30, 2021 are as follows:

<u>Purpose restrictions</u>	<u>2021</u>	<u>Additions</u>	<u>Released</u>	<u>2022</u>
CARES Act Provider Relief Fund	\$ -	\$ 73,843	\$ (47,000)	\$ 26,843
City of Poway	1,000	1,000	(1,000)	1,000
Escondido clients (Escondido Community Foundation)	-	20,000	(14,240)	5,760
Grandparents Raising Grandchildren (Fallbrook Regional Health District)	-	11,000	-	11,000
Neighborhood Reinvestment Prog.	-	50,000	(19,728)	30,272
San Marcos Foundation	-	1,260	-	1,260
Sisters of Saint Joseph	-	10,000	-	10,000
Teen Life Skills (Resthaven)	-	15,574	(14,327)	1,247
	<u>-\$ 1,000</u>	<u>\$ 182,677</u>	<u>\$ (96,295)</u>	<u>\$ 87,382</u>
Total temporarily restricted	<u>\$ 1,000</u>	<u>\$ 182,677</u>	<u>\$ (96,295)</u>	<u>\$ 87,382</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 are as follows:

	<u>2022</u>	<u>2021</u>
Value at June 30, 2021	\$ 72,955	\$ 58,823
Change in net assets	<u>(5,537)</u>	<u>14,132</u>
Value at June 30, 2022	<u>\$ 67,418</u>	<u>\$ 72,955</u>

Net assets with donor restrictions consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Temporarily restricted	\$ 45,841	\$ 87,382
Permanently restricted	<u>67,418</u>	<u>72,955</u>
	<u>\$ 113,259</u>	<u>\$ 160,337</u>

PALOMAR FAMILY COUNSELING SERVICE, INC.
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L. 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 balances of \$502,346 and \$497,597 in excess of the FDIC coverage for the years ended June 30, 2022 and 2021, respectively.

M. MAJOR GRANT CONTRACTS

Public Contracts -The Organization had the following contracts for the years ended June 30, 2022 and 2021:

San Diego County – Childnet 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 nine-year extension through June 30, 2022. Award amounts totaled \$848,098 and \$468,590 for the years ended June 30, 2022 and 2021. Total payments received were \$679,933 and \$447,578 for the years ended June 30, 2022 and 2021, respectively.

San Diego County – Full Service Partnership: 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 amounts totaled \$2,018,807 and \$1,470,343 for the years ended June 30, 2022 and 2021, respectively. Total payments received were \$1,537,803 and \$1,403,515 for the years ended June 30, 2022 and 2021, respectively.

San Diego County – North Coastal Prevention & Early Intervention: 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 \$752,258 and \$692,258 for the years ended June 30, 2022 and 2021, respectively. Total payments received were \$733,884 and \$619,529 for the years ended June 30, 2022 and 2021, respectively.

PALOMAR FAMILY COUNSELING SERVICE, INC.
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M. MAJOR GRANT CONTRACTS (CONTINUED)

In 2021, the contract was awarded extra funds during the year for CARES ACT “Out & About San Diego” in the amount of \$88,286 and for CARES Act IT Equipment in the amount of \$15,737.

San Diego County – CARES Act IT Equipment: contract with the San Diego County Department of Health and Human Services to provide funding for purchase of IT equipment and was used for the above three contracts. The contract term was for September 15 through November 30, 2020. The amount awarded and received for the years ended June 30, 2022 and 2021, was \$0 and \$71,156, respectively. The amount spent as of June 30, 2022 and 2021, was \$0 and \$59,771, respectively.

San Diego County – Neighborhood Reinvestment Program: contract with the San Diego County Board of Supervisors Dist 3 to help purchase computers, tablets, cloud-based electronic health record system, update facility swing doors, and purchase portable tabletop/partition acrylic guards. The contract term was for October 13, 2020 through November 13, 2021. The amount awarded and received for the years ended June 30, 2022 and 2021 was \$0 and \$35,000, respectively. The amount spent as of June 30, 2022 and 2021 was \$15,272 and \$19,728, respectively.

San Diego County – Neighborhood Reinvestment Program: contract with the San Diego County Board of Supervisors Dist 5 to help with the purchase of equipment such as acrylic guards, computers, tablets, and electronic health record system, and to update accessibility of their facility with automobile swing doors. The contract term was for April 6, 2021 through May 6, 2022. The amount awarded and received for the years ended June 30, 2022 and 2021 was \$15,000 and \$15,000, respectively. The amount spent as of June 30, 2022 and 2021 was \$15,000 and \$0, respectively.

San Diego County – Neighborhood Reinvestment Program: contract with the San Diego County Board of Supervisors Dist 3 (HVAC) to replace the HVAC system that is over 30 years old. The contract term was for October 5, 2021 through October 5, 2022. The amount awarded and received for the year ended June 30, 2022 was \$20,000. The amount spent as of June 30, 2022 was \$18,430.

The county contracts listed above are funded through federal funding. However, they are exempt from single or program specific audits 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.

Health Resources and Services Administration: contract with the Health Resources and Services Administration to reimburse eligible healthcare providers for healthcare related expense or lost revenues attributable to the coronavirus. The contract term was January 2020 to June 2021. The amount awarded and received for the years ended June 30, 2022 and 2021, was \$0 and \$73,843, respectively. The amount spent as of June 30, 2022 and 2021 was \$26,843 and \$47,000, respectively.

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
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M. MAJOR GRANT CONTRACTS (CONTINUED)

Healthy Bodies, Healthy Minds: contract 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 \$44,625 and \$66,581 for the years ended June 30, 2022 and 2021, respectively. Total payments received were \$44,625 and \$66,581 for the years ended June 30, 2022 and 2021, respectively.

Grandparents Raising Grandchildren: contract with the Fallbrook Regional Health District to provide the Grandparents Raising Grandchildren program to the district community. The contract term was for July 1 through June 30 of each fiscal year. Award amounts totaled \$15,186 and \$37,252 for the years ended June 30, 2022 and 2021, respectively. Total payments received were \$15,186 and \$37,252 for the years ended June 30, 2022 and 2021, respectively.

The three 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: contract 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 \$10,259 and \$10,000 for the years ended June 30, 2022 and 2021, respectively. Total payments received were \$10,259 and \$10,000 for the years ended June 30, 2022 and 2021, 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 \$759,432 and \$477,724 for the years ended June 30, 2022 and 2021, 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.

N. REVENUE CONCENTRATION

The Organization receives revenue on several contracts from San Diego County, which provided \$2,951,671, or approximately 66% of the Organization's total revenue for the year ended June 30, 2022. Accounts receivable from San Diego County was \$482,284 at June 30, 2022.

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O. 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 \$59,822 and \$54,093 in matching employee contributions for eligible participants in the 403(b) plan for the years ended June 30, 2022 and 2021, respectively.

P. OPERATING LEASE ARRANGEMENTS

The Organization has a month to month lease agreement for its Poway facility with an unrelated party. The lease has a monthly payment of \$200. Total rent expense for the years ended June 30, 2022 and 2021 was \$2,400 and \$2,600, respectively.

The Organization had a month to month lease agreement for garage storage with an unrelated party through April 2022 for \$250 per month. The lease was renewed for \$275 per month effective May 1, 2022. Total rent expense for the years ended June 30, 2022 and 2021 was \$3,050 and \$3,000, respectively.

The Organization also pays for records storage and shredding. Total expense for these services for the years ended June 30, 2022 and 2021 was \$5,483 and \$4,683, respectively.

The Organization leases copy machines from an unrelated party under a five year lease agreement that expires October 2025. The lease had a monthly payment of \$2,198 which increased to \$2,357 on January 2022. Operating lease expense for this lease for the years ended June 30, 2022 and 2021 was \$25,254 and \$20,005, respectively.

The Organization leases copy machines from an unrelated party under a five year lease agreement that expires April 2024. The lease has a monthly payment of \$169. Operating lease expense for this lease for the years ended June 30, 2022 and 2021 was \$1,863 and \$2,061, respectively.

The future minimum rental commitments under the above leases are as follows at June 30:

2023	\$	30,307
2024		29,969
2025		28,282
2026		9,427
2027		-
2028 and thereafter		-
		\$ 97,985

PALOMAR FAMILY COUNSELING SERVICE, INC.
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Q. CORONAVIRUS AID, RELIEF AND ECONOMIC SECURITY ACT/ADOPTION OF ACCOUNTING POLICY

PPP loan

The Paycheck Protection Program (“PPP”) was 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.

On April 20, 2020, the Organization received loan proceeds in the amount of \$629,500 under the PPP, and on May 4, 2021 the Organization received forgiveness of \$536,097, and returned the unforgiven portion of \$93,403 without penalty.

The funds were accounted for in accordance with FASB ASC 958-605 whereby the PPP loan funds were treated as a conditional governmental grant and recorded as a refundable advance. As the qualifying payroll expenses were incurred, the Organization recognized contribution revenue and decreased the refundable advance. The amount of funds included in grant revenue in the statement of activities for the year ended June 30, 2021 was \$348,921. The amount of refundable advance was \$0 as of June 30, 2021.

R. SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 17, 2023, the date the financial statements were available to be issued. Management is not aware of any events that have occurred subsequent to June 30, 2022 that would require adjustment to, or disclosure in the financial statements.