

**INDEPENDENT AUDITOR'S REPORT AND  
FINANCIAL STATEMENTS  
OF  
PALOMAR FAMILY COUNSELING SERVICE, INC.  
JUNE 30, 2023 AND 2022**

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
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**JUNE 30, 2023 AND 2022**

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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, 2023 and 2022, 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, 2023 and 2022, 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, Jani & Pasch LLP*

Escondido, California

January 17, 2024

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2023 AND 2022**

<b>ASSETS</b>		
	<b>2023</b>	<b>2022</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 800,898	\$ 632,868
Accounts receivable	11,222	10,008
Grants receivable	626,406	553,884
Prepaid expenses	2,495	8,899
<b>TOTAL CURRENT ASSETS</b>	<b>1,441,021</b>	<b>1,205,659</b>
Property and equipment, net	1,266,059	1,301,514
<b>Other Assets</b>		
Investment, endowment (restricted)	68,939	67,418
Deferred loan cost, net	4,306	8,071
Refundable deposits	200	200
Operating lease right-of use asset	61,874	89,207
<b>TOTAL OTHER ASSETS</b>	<b>135,319</b>	<b>164,896</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,842,399</b>	<b>\$ 2,672,069</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 11,217	\$ 1,042
Accrued payroll liabilities	158,897	150,050
Long-term debt, current portion	19,772	19,169
Operating lease liability, current portion	27,568	27,879
<b>TOTAL CURRENT LIABILITIES</b>	<b>217,454</b>	<b>198,140</b>
<b>Long-term Liabilities</b>		
Long-term debt, noncurrent portion	276,072	295,705
Operating lease liability, noncurrent portion	34,306	61,328
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>310,378</b>	<b>357,033</b>
<b>TOTAL LIABILITIES</b>	<b>527,832</b>	<b>555,173</b>
<b>Net Assets</b>		
Without donor restrictions	2,054,962	2,003,637
With donor restrictions	259,605	113,259
<b>TOTAL NET ASSETS</b>	<b>2,314,567</b>	<b>2,116,896</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,842,399</b>	<b>\$ 2,672,069</b>

See independent auditor's report and notes to financial statements

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2023 AND 2022**

	Year Ended June 30, 2023		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and Support</b>			
Contract service revenue	\$ 4,168,086	\$ 202,000	\$ 4,370,086
Counseling service revenue	600,690	-	600,690
Donations	44,821	-	44,821
Interest and other income	4,573	-	4,573
Investment return, net	-	1,521	1,521
<b>Total Revenue and Support</b>	<u>4,818,170</u>	<u>203,521</u>	<u>5,021,691</u>
<b>Net Assets Released from Restrictions</b>			
Contract service revenue	57,175	(57,175)	-
<b>Total Net Assets Released from Restrictions</b>	<u>57,175</u>	<u>(57,175)</u>	<u>-</u>
	<u>4,875,345</u>	<u>146,346</u>	<u>5,021,691</u>
<b>Costs and Expenses</b>			
Program services	3,901,385	-	3,901,385
General and administrative	922,635	-	922,635
<b>Total Costs and Expenses</b>	<u>4,824,020</u>	<u>-</u>	<u>4,824,020</u>
<b>Change in Net Assets</b>	51,325	146,346	197,671
<b>Net assets at Beginning of Year</b>	<u>2,003,637</u>	<u>113,259</u>	<u>2,116,896</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 2,054,962</u>	<u>\$ 259,605</u>	<u>\$ 2,314,567</u>
	Year Ended June 30, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and Support</b>			
Contract service revenue	\$ 3,790,121	\$ 90,358	\$ 3,880,479
Counseling service revenue	554,344	-	554,344
Grant revenue	-	-	-
Donations	14,483	-	14,483
Interest and other income	3,448	-	3,448
Investment return, net	-	(5,537)	(5,537)
<b>Total Revenue and Support</b>	<u>4,362,396</u>	<u>84,821</u>	<u>4,447,217</u>
<b>Net Assets Released from Restrictions</b>			
Contract service revenue	131,899	(131,899)	-
<b>Total Net Assets Released from Restrictions</b>	<u>131,899</u>	<u>(131,899)</u>	<u>-</u>
	<u>4,494,295</u>	<u>(47,078)</u>	<u>4,447,217</u>
<b>Costs and Expenses</b>			
Program services	3,595,842	-	3,595,842
General and administrative	858,867	-	858,867
<b>Total Costs and Expenses</b>	<u>4,454,709</u>	<u>-</u>	<u>4,454,709</u>
<b>Change in Net Assets</b>	39,586	(47,078)	(7,492)
<b>Net assets at Beginning of Year</b>	<u>1,964,051</u>	<u>160,337</u>	<u>2,124,388</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 2,003,637</u>	<u>\$ 113,259</u>	<u>\$ 2,116,896</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, 2023**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
<b>Wages and Employee Benefits</b>			
Salaries	\$ 2,818,111	\$ 572,709	\$ 3,390,820
Payroll taxes	229,645	46,670	276,315
Health insurance	198,178	40,275	238,453
Worker compensation	3,550	721	4,271
Life AD&D and LTD	4,408	896	5,304
Vacation benefits	142,828	29,026	171,854
Retirement benefit matching	45,490	9,245	54,735
<b>Total Wages and Employee Benefits</b>	<u>3,442,210</u>	<u>699,542</u>	<u>4,141,752</u>
<b>Other Expenses</b>			
Advertising	6,152	1,250	7,402
Bank charges	3,476	706	4,182
Board and employee events	-	5,191	5,191
Consulting and contract services	80,977	16,456	97,433
Depreciation and amortization	-	86,352	86,352
Dues and subscriptions	-	4,123	4,123
Electronic health record	-	10,982	10,982
Employee longevity awards	-	575	575
Fingerprinting, TB, immunization	2,510	510	3,020
Gift cards	1,205	245	1,450
Insurance	27,064	4,632	31,696
Interest	-	9,621	9,621
IT services	44,814	9,107	53,921
Legal and accounting	10,472	2,128	12,600
Maintenance	49,916	10,144	60,060
Office equipment lease	26,239	5,333	31,572
Office supplies	30,128	6,123	36,251
Payroll service fees	21,320	4,333	25,653
Postage	2,054	418	2,472
Printing	9,086	1,846	10,932
Program supplies	22,047	3,401	25,448
Rent-archives	-	5,537	5,537
Rent-Escondido	-	3,325	3,325
Rent-Poway	-	400	400
Tax and license fees	-	5,471	5,471
Telephone	71,810	14,593	86,403
Training meetings	3,795	921	4,716
Travel	12,820	2,605	15,425
Utilities	33,290	6,765	40,055
<b>Total Other Expenses</b>	<u>459,175</u>	<u>223,093</u>	<u>682,268</u>
	<u>\$ 3,901,385</u>	<u>\$ 922,635</u>	<u>\$ 4,824,020</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, 2022**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
<b>Wages and Employee Benefits</b>			
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
<b>Total Wages and Employee Benefits</b>	<u>3,184,261</u>	<u>669,998</u>	<u>3,854,259</u>
<b>Other Expenses</b>			
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
<b>Total Other Expenses</b>	<u>411,581</u>	<u>188,869</u>	<u>600,450</u>
<b>Total Expenses</b>	<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.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2023 AND 2022**

	<b>2023</b>	<b>2022</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 197,671	\$ (7,492)
Adjustments to reconcile change in net assets provided by operating activities:		
Investment return, net	(1,521)	5,537
Depreciation and amortization	86,352	74,033
(Increase) decrease in accounts receivable	(73,736)	75,064
(Increase) decrease in prepaid expense	6,404	(7,042)
Increase (decrease) in accounts payable	10,175	(7,186)
Increase (decrease) in accrued payroll expense	8,848	(2,735)
Total adjustments	36,522	137,671
Net cash provided by operating activities	234,193	130,179
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(47,133)	(98,781)
Net cash used in investing activities	(47,133)	(98,781)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Cash paid on long-term debt	(19,030)	(18,414)
Net cash provided by financing activities	(19,030)	(18,414)
 NET INCREASE (DECREASE) IN CASH	 168,030	 12,984
CASH AND EQUIVALENTS, BEGINNING OF YEAR	632,868	619,884
<b>CASH AND EQUIVALENTS, END OF YEAR</b>	<b>\$ 800,898</b>	<b>\$ 632,868</b>
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
<b>CASH PAID DURING THE YEAR FOR:</b>		
Interest expense	\$ 9,621	\$ 10,238

See independent auditor's report and notes to financial statements

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2023 AND 2022**

**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, 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 Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes existing guidance for accounting for leases under Topic 840, Leases. The FASB also subsequently issued the following additional ASUs, which amend and clarify Topic 842: ASU 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU 2018-10, Codification Improvements to Topic 842, Leases; ASU 2018-11, Leases (Topic 842): Targeted Improvements; ASU 2018-20, Narrow-scope Improvements for Lessors; and ASU 2019-01, Leases (Topic 842): Codification Improvements. The most significant change in the new leasing guidance is the requirement to recognize right-to-use ("ROU") assets and lease liabilities for operating leases on the statement of financial position.

The Organization adopted FASB Topic 842, Leases, using the modified retrospective approach with July 1, 2021 as the date of initial adoption (comparative method) and utilized all of the available practical expedients. The adoption had a material impact on the Organization's statements of financial position but did not have a material impact on the statements of activities. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases. Adoption of the standard required the Organization to restate amounts as of June 30, 2022, resulting in an increase in operating lease ROU assets of \$89,207, an increase in current operating lease liability of \$27,879, and an increase in long-term operating lease liability of \$61,328.

The Organization has elected to apply the short-term lease exception to all leases with a term of one year or less. The accounting for finance leases remained substantially unchanged.

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2023 AND 2022**

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Adoption of Accounting Pronouncements (continued)

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.

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, 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.

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2023 AND 2022**

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Leases

The Organization leases certain buildings and equipment. The determination of whether an arrangement is a lease is made at the lease's inception. Under ASC 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

Operating leases are included in operating lease right-of-use ("ROU") assets, other current liabilities, and operating lease liabilities in the statements of financial position. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities in the statements of financial position. For the years ended June 30, 2023 and 2022 the Organization did not have any finance lease obligations.

ROU assets represent the Organization's right to use an underlying asset for the lease term, and lease liabilities represent the Organization's obligation to make lease payments. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Organization uses the implicit rate when it is readily determinable. Since most of the Organization's leases do not provide an implicit rate, management uses a risk-free rate to determine the present value of lease payments. Operating lease ROU assets also include any lease payments made and exclude any lease incentives. There are no material restrictions or covenants imposed by lease arrangements. The Organization's lease terms may include options to extend or terminate the lease. The Organization regularly evaluates these options, and when they are reasonably certain of exercise, the Organization includes the renewal period in its lease term. The Organization has lease agreements with lease and non-lease components, which are accounted for as a single lease component.

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, 2023 and 2022.

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2023 AND 2022**

**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.

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, 2023 and 2022.

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2023 AND 2022**

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Revenue and Revenue Recognition

For the years ended June 30, 2023 and 2022, the Organization did not have revenue streams that fall under Revenue from Contracts with Customers (Topic 606).

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, 2023 and 2022. The Organization had grants receivable in the amount of \$626,406 and \$553,884 at June 30, 2023 and 2022, 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 83.11% and 16.89%, respectively, for the year ended June 30, 2023, and 82.62% and 17.38%, respectively, for the year ended June 30, 2022. 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, 2023 and 2022 was \$7,402 and \$9,544, respectively.

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**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Investments

The Organization has an endowment portfolio with the San Diego Foundation. The fund is valued based on the readily determinable fair market value of securities included.

The Organization's fund balance consists of a permanently restricted endowment as referenced in Note K. 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, 2023, 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	\$ 800,898
Investment	68,939
Accounts receivable	11,222
Grants receivable	<u>626,406</u>
Total financial assets	1,507,465

Less amounts not available to be used within one year:

Investment endowment	(68,939)
Restricted by donor with purpose restrictions	<u>-</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,438,526</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 J, the Organization has a \$200,000 line of credit to support temporary cash flow needs subject to board direction and restrictions.

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
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**D. INVESTMENTS**

Investments are classified as follows at June 30:

	<u>2023</u>	<u>2022</u>
Investments, without donor restrictions	\$ -	\$ -
Investments, endowment (restricted)	<u>68,939</u>	<u>67,418</u>
	<u>\$ 68,939</u>	<u>\$ 67,418</u>

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

	<u>2023</u>	<u>2022</u>
Realized and unrealized gains (losses), net	\$ 1,857	\$ (5,218)
Investment management fees	<u>(336)</u>	<u>(319)</u>
	<u>\$ 1,521</u>	<u>\$ (5,537)</u>

**E. RECEIVABLES**

Receivables consist of the following at June 30:

	<u>2023</u>	<u>2022</u>
<u>Accounts receivable</u>		
Client services	<u>\$ 11,222</u>	<u>\$ 10,008</u>
	<u>\$ 11,222</u>	<u>\$ 10,008</u>
 <u>Grants receivable</u>		
Reimbursable grant contracts	<u>\$ 626,406</u>	<u>\$ 553,884</u>
	<u>\$ 626,406</u>	<u>\$ 553,884</u>

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

**F. PROPERTY AND EQUIPMENT**

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

	<u>2023</u>	<u>2022</u>
Buildings and improvements	\$ 1,554,817	\$ 1,536,417
Furniture, fixtures and equipment	263,656	234,923
Land	<u>470,589</u>	<u>470,589</u>
	2,289,062	2,241,929
Less: accumulated depreciation	<u>(1,023,003)</u>	<u>(940,415)</u>
	<u>\$ 1,266,059</u>	<u>\$ 1,301,514</u>

Depreciation expense for the years ended June 30, 2023 and 2022 was \$82,588 and \$72,874.



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**G. CASH FLOW INFORMATION**

The Organization did not have any non-cash financing transactions for the years ended June 30, 2023 and 2022.

The Organization obtained right of use assets in exchange for new operating lease liabilities in the amount of \$0 and \$89,207 for the years ended June 30, 2023 and 2022, respectively.

**H. DEFERRED LOAN COST**

Deferred loan cost consists of the following at June 30:

	<u>2023</u>	<u>2022</u>
Loan closing costs	\$ 19,347	\$ 19,347
Less: accumulated amortization	<u>(15,041)</u>	<u>(11,276)</u>
	<u>\$ 4,306</u>	<u>\$ 8,071</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, 2023 and 2022, amortization expense was \$3,764 and \$1,159, respectively.

The loan referenced in Note I was entered into in December 2020 as a refinance of a prior loan originating in December of 2017. The loan fees for the December 2017 loan were inadvertently left on the books. The remaining balance of the 2017 loan fees in the amount of \$3,184 were amortized in full in the year ended June 30, 2023.

**I. LONG-TERM DEBT**

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

	<u>2023</u>	<u>2022</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>\$ 295,844</u>	<u>\$ 314,874</u>
Total long-term debt	295,844	314,874
Less: current portion	<u>(19,772)</u>	<u>(19,169)</u>
Noncurrent portion	<u>\$ 276,072</u>	<u>\$ 295,705</u>

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**I. LONG-TERM DEBT (CONTINUED)**

Annual maturities of long-term debt outstanding at June 30, 2023 are as follows:

2024	\$ 19,772
2025	20,394
2026	21,035
2027	21,969
2028	22,378
2029 and thereafter	<u>190,296</u>
Total annual maturities	<u>\$ 295,844</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, 2023 and 2022, the Organization was in compliance with the loan covenants.

The total approximate book value of the collateralized real property was approximately \$109,396 and \$118,032 at June 30, 2023 and 2022, respectively.

**J. LINE OF CREDIT**

The Organization has 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 is payable monthly. The line is collateralized by the Organization's assets. The line of credit expires February 19, 2024. No balance was outstanding under the line of credit as of June 30, 2023 and 2022.

**K. RESTRICTED NET ASSETS**

Changes in restricted net assets for the year ended June 30, 2023 are as follows:

<u>Purpose restrictions</u>	<u>2022</u>	<u>Additions</u>	<u>Released</u>	<u>2023</u>
City of Poway	\$ 2,500	\$ -	\$ (2,500)	\$ -
City of Escondido Nonprofit Relief Grant	-	35,000	(11,334)	23,666
Coastal Community Foundation Grant	2,600	-	(2,600)	-
Covid Response (Rancho Santa Fe Foundation)	14,400	-	(14,400)	-
Family Resilience Project	11,074	-	(11,074)	-
Laptop purchase (CECO)	934	-	(934)	-
Neighborhood Reinvestment Prog.	1,570	-	(1,570)	-
Nordstrom Foundation Grant	-	7,000	-	7,000
Oceanside Promise, Inc.	497	-	(497)	-

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

<u>Purpose restrictions</u>	<u>2022</u>	<u>Additions</u>	<u>Released</u>	<u>2023</u>
Parker Foundation Grant	\$ -	\$ 25,000	\$ -	\$ 25,000
San Diego Women's Foundation	-	60,000	-	60,000
San Diego Dr Seuss Foundation	-	75,000	-	75,000
San Marcos Project (Rancho Santa Fe Foundation)	12,266	-	(12,266)	-
Total temporarily restricted	<u>\$ 45,841</u>	<u>\$ 202,000</u>	<u>\$ (57,175)</u>	<u>\$ 190,666</u>

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 Covid Response	-	3,000	(400)	2,600
(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>

**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.

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**K. RESTRICTED NET ASSETS (CONTINUED)**

**Permanently Restricted (continued)**

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

	<u>2023</u>	<u>2022</u>
Beginning value	\$ 67,418	\$ 72,955
Change in net assets	<u>1,521</u>	<u>(5,537)</u>
Ending value	<u>\$ 68,939</u>	<u>\$ 67,418</u>

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

	<u>2023</u>	<u>2022</u>
Temporarily restricted	\$ 190,666	\$ 45,841
Permanently restricted	<u>68,939</u>	<u>67,418</u>
	<u>\$ 259,605</u>	<u>\$ 113,259</u>

**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 banks 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 \$419,536 and \$502,346 in excess of the FDIC coverage for the years ended June 30, 2023 and 2022, respectively.

**M. MAJOR GRANT CONTRACTS**

**Public Contracts** -The Organization had the following contracts for the years ended June 30, 2023 and 2022:

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. The Organization signed a new contract with initial terms from July 1, 2022 through June 30, 2023 with the option to extend for four one-year increments through June 30, 2027. Award amounts totaled \$924,000 and \$848,098 for the years ended June 30, 2023 and 2022, respectively. Total payments received were \$712,507 and \$679,933 for the years ended June 30, 2023 and 2022, respectively.

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

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 option to extend for four one-year increments through June 30, 2024. Award amounts totaled \$2,128,500 and \$2,018,807 for the years ended June 30, 2023 and 2022, respectively. Total payments received were \$1,691,090 and \$1,537,803 for the years ended June 30, 2023 and 2022, 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 from July 1 through June 30 of each fiscal year ending June 30, 2022. The Organization signed a new contract with initial grant contract terms from July 1, 2022 through June 30, 2023 with the option to extend for four one-year increments through June 30, 2027. Award amounts totaled \$891,829 and \$752,258 for the years ended June 30, 2023 and 2022, respectively. Total payments received were \$846,994 and \$733,884 for the years ended June 30, 2023 and 2022, 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, 2023. The amount awarded and received for the years ended June 30, 2023 and 2022 was \$0 and \$20,000, respectively. The amounts spent for the years ended June 30, 2023 and 2022 was \$ 1,570 and \$18,430, respectively.

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.

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 \$45,000 and \$44,625 for the years ended June 30, 2023 and 2022, respectively. Total payments received were \$45,000 and \$44,625 for the years ended June 30, 2023 and 2022, respectively.

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**M. MAJOR GRANT CONTRACTS (CONTINUED)**

Healthy Bodies, Healthy Minds: contract with the Fallbrook Union Elementary School District to provide counseling, record keeping, supervision and consultation as part of Healthy Bodies, Healthy Minds program. The contract terms were for September 1, 2022 through May 31, 2023. Award amounts totaled \$15,000 and \$0 for the years ended June 30, 2023 and 2022, respectively. Total payments received were \$10,000 and \$0 for the years ended June 30, 2023 and 2022, respectively.

Healthy Bodies, Thriving Youth: contract with the City of Escondido to provide mental health therapy to Escondido high school students as part of Healthy Bodies Thriving Youth program. The contract terms were for July 1, 2022 through June 30, 2023. Award amounts totaled \$22,333 and \$0 for the years ended June 30, 2023 and 2022, respectively. Total payments received were \$22,333 and \$0 for the years ended June 30, 2023 and 2022, respectively.

Grandparents Raising Grandchildren: contract with the Fallbrook Regional Health District to provide the Grandparents Raising Grandchildren program to the district community. The contract terms were for July 1 through June 30 of each fiscal year. Award amounts totaled \$15,000 and \$15,186 for the years ended June 30, 2023 and 2022, respectively. Total payments received were \$15,000 and \$15,186 for the years ended June 30, 2023 and 2022, respectively.

The four 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 \$10,000 and \$10,259 for the years ended June 30, 2023 and 2022, respectively. Total payments received were \$10,000 and \$10,259 for the years ended June 30, 2023 and 2022, 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 \$819,997 and \$759,432 for the years ended June 30, 2023 and 2022, 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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**N. REVENUE CONCENTRATION**

The Organization received revenue on several contracts from San Diego County, which provided \$3,250,591, or approximately 65% of the Organization's total revenue for the year ended June 30, 2023. Accounts receivable from San Diego County was \$538,574 at June 30, 2023.

**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 \$54,735 and \$59,822 in matching employee contributions for eligible participants in the 403(b) plan for the years ended June 30, 2023 and 2022, respectively.

**P. OPERATING LEASE COMMITMENTS**

The Organization had a month to month lease agreement for its Poway facility with an unrelated party. The lease had a monthly payment of \$200. Total rent expense for the years ended June 30, 2023 and 2022 was \$400 and \$2,400, respectively.

The Organization has a month to month lease agreement for garage storage with an unrelated party. The lease had a monthly payment of \$275 which increased to \$300 on June 1, 2023. Total rent expense for the years ended June 30, 2023 and 2022 was \$3,325 and \$3,050, respectively.

The Organization also pays for records storage and shredding. Total expense for these services for the years ended June 30, 2023 and 2022 was \$5,537 and \$5,483, respectively.

The Organization leases copy machines from an unrelated party under a five year lease agreement that expires October 2025. The lease has a monthly payment of \$2,187 plus tax and fees. Operating lease expense for this lease for the years ended June 30, 2023 and 2022 was \$29,356 and \$25,254, 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 \$157 plus tax and fees. Operating lease expense for this lease for the years ended June 30, 2023 and 2022 was \$2,216 and \$1,863, respectively.

The following is a summary of the lease terms and discount rates as of June 30:

	<u>2023</u>	<u>2022</u>
Weighted average lease term (in years) – operating lease	2.30	3.28
Weighted average discount rate – operating lease	0.89%	0.89%

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
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**P. OPERATING LEASE COMMITMENTS (CONTINUED)**

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

2024	\$ 27,814
2025	26,247
2026	8,749
2027	-
2028	-
2029 and thereafter	-
	<u>62,810</u>
Less: present value discount	(936)
Lease liability	<u>\$ 61,874</u>

Lease liability is reflected in the accompanying balance sheets as follows at June 30:

	<u>2023</u>	<u>2022</u>
Operating lease liability, current portion	\$ 27,568	\$ 27,879
Operating lease liability, noncurrent portion	<u>34,306</u>	<u>61,328</u>
	<u>\$ 61,874</u>	<u>\$ 89,207</u>

**Q. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 17, 2024, the date the financial statements were available to be issued. Management is not aware of any events that have occurred subsequent to June 30, 2023 that would require adjustment to, or disclosure in the financial statements.