

**INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS
OF
PALOMAR FAMILY COUNSELING SERVICE, INC.
JUNE 30, 2025 AND 2024**

PALOMAR FAMILY COUNSELING SERVICE, INC.
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JUNE 30, 2025 AND 2024

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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, 2025 and 2024, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palomar Family Counseling Service, Inc. as of June 30, 2025 and 2024, 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 28, 2026

PALOMAR FAMILY COUNSELING SERVICE, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2025 AND 2024

ASSETS	2025	2024
Current Assets		
Cash and cash equivalents	\$ 407,447	\$ 541,513
Accounts receivable	-	3,869
Grants/Contracts receivable	773,864	841,533
Prepaid expenses	1,603	9,731
TOTAL CURRENT ASSETS	1,182,914	1,396,646
 Property and equipment, net	 1,217,875	 1,314,583
 Other Assets		
Investment, endowment (restricted)	74,955	71,527
Deferred loan cost, net	3,145	3,726
Refundable deposits	-	200
Operating lease right-of use asset	100,611	34,611
TOTAL OTHER ASSETS	178,711	110,064
 TOTAL ASSETS	 \$ 2,579,500	 \$ 2,821,293
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 5,162	\$ 2,536
Refundable advance	1,000	1,000
Accrued payroll liabilities	216,283	191,143
Long-term debt, current portion	21,035	20,394
Operating lease liability, current portion	24,490	26,016
TOTAL CURRENT LIABILITIES	267,970	241,089
 Long-term Liabilities		
Long-term debt, noncurrent portion	234,320	255,287
Operating lease liability, noncurrent portion	76,121	8,595
TOTAL LONG-TERM LIABILITIES	310,441	263,882
 TOTAL LIABILITIES	 578,411	 504,971
 Net Assets		
Without donor restrictions	1,829,249	2,097,272
With donor restrictions	171,840	219,050
TOTAL NET ASSETS	2,001,089	2,316,322
 TOTAL LIABILITIES AND NET ASSETS	 \$ 2,579,500	 \$ 2,821,293

See independent auditor's report and notes to financial statements

PALOMAR FAMILY COUNSELING SERVICE, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

	Year Ended June 30, 2025		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contract service revenue	\$ 4,884,695	\$ -	\$ 4,884,695
Grant revenue	11,100	40,000	51,100
Counseling service revenue	597,763	-	597,763
Donations	23,280	-	23,280
Interest and other income	6,838	-	6,838
Investment return, net	-	3,428	3,428
Total Revenue and Support	5,523,676	43,428	5,567,104
Net Assets Released from Restrictions			
Grant revenue	90,638	(90,638)	-
Total Net Assets Released from Restrictions	90,638	(90,638)	-
	5,614,314	(47,210)	5,567,104
Costs and Expenses			
Program services	4,769,454	-	4,769,454
General and administrative	1,112,883	-	1,112,883
Total Costs and Expenses	5,882,337	-	5,882,337
Change in Net Assets	(268,023)	(47,210)	(315,233)
Net assets at Beginning of Year	2,097,272	219,050	2,316,322
NET ASSETS AT END OF YEAR	\$ 1,829,249	\$ 171,840	\$ 2,001,089

	Year Ended June 30, 2024		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contract service revenue	\$ 5,013,869	\$ -	\$ 5,013,869
Grant revenue	9,000	89,665	98,665
Counseling service revenue	547,141	-	547,141
Donations	19,363	-	19,363
Interest and other income	11,282	-	11,282
Investment return, net	-	2,588	2,588
Total Revenue and Support	5,600,655	92,253	5,692,908
Net Assets Released from Restrictions			
Grant revenue	132,808	(132,808)	-
Total Net Assets Released from Restrictions	132,808	(132,808)	-
	5,733,463	(40,555)	5,692,908
Costs and Expenses			
Program services	4,719,869	-	4,719,869
General and administrative	971,284	-	971,284
Total Costs and Expenses	5,691,153	-	5,691,153
Change in Net Assets	42,310	(40,555)	1,755
Net assets at Beginning of Year	2,054,962	259,605	2,314,567
NET ASSETS AT END OF YEAR	\$ 2,097,272	\$ 219,050	\$ 2,316,322

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, 2025

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
Wages and Employee Benefits			
Salaries	\$ 3,531,460	\$ 718,365	\$ 4,249,825
Payroll taxes	277,275	56,403	333,678
Health insurance	186,502	37,938	224,440
Worker compensation	15,990	3,253	19,243
Life AD&D and LTD	3,556	723	4,279
Vacation benefits	167,531	34,079	201,610
Retirement benefit matching	53,380	10,859	64,239
Total Wages and Employee Benefits	<u>4,235,694</u>	<u>861,620</u>	<u>5,097,314</u>
Other Expenses			
Advertising	10,162	122	10,284
Bank charges	-	19,476	19,476
Board and employee events	-	6,116	6,116
Consulting and contract services	124,676	3,328	128,004
Depreciation and amortization	-	97,289	97,289
Dues and subscriptions	-	4,043	4,043
Electronic health record	-	17,165	17,165
Employee longevity awards	-	450	450
Fingerprinting, TB, immunization	7,597	1,545	9,142
Food	5,026	-	5,026
Gift cards	675	-	675
Insurance	43,164	8,780	51,944
Interest	-	11,697	11,697
IT services	40,274	8,192	48,466
Legal and accounting	13,711	2,789	16,500
Maintenance	55,071	11,202	66,273
Marketing material	2,700	549	3,249
Office equipment lease	25,922	5,273	31,195
Office supplies	25,831	5,255	31,086
Payroll service fees	19,864	4,041	23,905
Postage	1,034	210	1,244
Printing	6,281	1,278	7,559
Professional development	1,500	-	1,500
Program supplies	7,277	1,480	8,757
Rent-archives	-	5,777	5,777
Rent-Escondido	-	150	150
Tax and license fees	-	5,968	5,968
Telephone	82,221	16,725	98,946
Training meetings	14,409	2,931	17,340
Travel	11,577	2,355	13,932
Utilities	34,788	7,077	41,865
Total Other Expenses	<u>533,760</u>	<u>251,263</u>	<u>785,023</u>
	<u>\$ 4,769,454</u>	<u>\$ 1,112,883</u>	<u>\$ 5,882,337</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, 2024

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
Wages and Employee Benefits			
Salaries	\$ 3,280,352	\$ 585,253	\$ 3,865,605
Payroll taxes	273,004	48,707	321,711
Health insurance	213,707	38,128	251,835
Worker compensation	13,453	2,400	15,853
Life AD&D and LTD	4,042	721	4,763
Vacation benefits	165,452	29,518	194,970
Retirement benefit matching	50,517	9,013	59,530
Total Wages and Employee Benefits	<u>4,000,527</u>	<u>713,740</u>	<u>4,714,267</u>
Other Expenses			
Advertising	11,475	2,047	13,522
Bank charges	-	11,028	11,028
Board and employee events	-	9,989	9,989
Consulting and contract services	237,908	500	238,408
Depreciation and amortization	-	92,294	92,294
Dues and subscriptions	-	3,583	3,583
Electronic health record	-	11,861	11,861
Employee longevity awards	-	2,425	2,425
Fingerprinting, TB, Immunization	16,770	123	16,893
Gift cards	1,625	-	1,625
Insurance	36,077	6,437	42,514
Interest	-	8,488	8,488
IT services	39,782	7,097	46,879
Legal and accounting	13,747	2,453	16,200
Maintenance	53,160	9,484	62,644
Office equipment lease	28,649	5,111	33,760
Office supplies	52,485	9,364	61,849
Payroll service fees	-	25,547	25,547
Postage	2,913	520	3,433
Printing	9,691	1,729	11,420
Program supplies	28,261	3,777	32,038
Rent-archives	-	5,894	5,894
Rent-Escondido	-	3,600	3,600
Tax and license fees	-	7,151	7,151
Telephone	83,773	17,826	101,599
Training meetings	51,366	-	51,366
Travel	17,367	3,098	20,465
Utilities	34,293	6,118	40,411
Total Other Expenses	<u>719,342</u>	<u>257,544</u>	<u>976,886</u>
Total Expenses	<u>\$ 4,719,869</u>	<u>\$ 971,284</u>	<u>\$ 5,691,153</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, 2025 AND 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	<u>\$ (315,233)</u>	<u>\$ 1,755</u>
Adjustments to reconcile change in net assets provided by operating activities:		
Investment return, net	(3,428)	(2,588)
Depreciation and amortization	97,289	92,294
(Increase) decrease in accounts receivable	71,538	(207,774)
(Increase) decrease in prepaid expense	8,128	(7,236)
Other current assets	200	-
Increase (decrease) in accounts payable	2,626	(8,681)
Increase (decrease) in refundable advance	-	1,000
Increase (decrease) in accrued payroll expense	25,140	32,245
Total adjustments	<u>201,493</u>	<u>(100,740)</u>
Net cash provided by operating activities	<u>(113,740)</u>	<u>(98,985)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>-</u>	<u>(140,237)</u>
Net cash used in investing activities	<u>-</u>	<u>(140,237)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Cash paid on long-term debt	<u>(20,326)</u>	<u>(20,163)</u>
Net cash provided by financing activities	<u>(20,326)</u>	<u>(20,163)</u>
NET INCREASE (DECREASE) IN CASH	(134,066)	(259,385)
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>541,513</u>	<u>800,898</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 407,447</u>	<u>\$ 541,513</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
CASH PAID DURING THE YEAR FOR:		
Interest expense	<u>\$ 11,697</u>	<u>\$ 8,488</u>

See independent auditor's report and notes to financial statements

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

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 long-standing mission of the Organization is to support and strengthen children, youth, adults, families, schools and communities. In the spring of 2024, the Organization revised its mission to read "We empower and uplift individuals of all ages in North San Diego County by providing high quality mental health services that foster resilience and well-being." The Organization's 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 June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13" or "ASC 326"). ASU 2016-13 revises the accounting requirements related to the measurement of credit losses and requires organizations to measure all expected credit losses for financial assets based on historical experience, current conditions, and reasonable and supportable forecasts about collectability. Assets must be presented in the financial statements at the net amount expected to be collected. During 2019, the FASB issued additional ASUs amending certain aspects of ASU 2016-13.

On July 1, 2023, the Organization adopted the new accounting standard and all of the related amendments using the modified retrospective method. There were no adjustments made by applying the new credit loss standard due to the immaterial effect on the financial statements.

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.

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes thereon are classified and reported as follows:

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.

Promises to Give

Unconditional promises to give in future periods are recognized as support in the period in which the promises are received and as assets, decreases of liabilities, or expenses depending on the form of benefit received. Promises to give are recorded at net realizable value if they are expected to be collected within one year and at net present value if they are expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met. At June 30, 2025, the Organization did not have any promises to give.

Accounts Receivable

Accounts receivable consists 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. No allowance for uncollectible account receivable has been reflected in the financial statements, as management believes all accounts to be collectible and there has been no history of significant bad debt write off.

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2025 and 2024.

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 other long-term 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, 2025 and 2024, 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.

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.

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 function. Based on estimates made by management, costs based on contract guidelines have been allocated between program services and general and administrative expenses at 83.10% and 16.90%, respectively, for the year ended June 30, 2025, and 84.86% and 15.14%, respectively, for the year ended June 30, 2024. All other expenses are allocated based on the management's estimate.

Investments

The Organization carries investments in marketable securities with readily determinable fair values at their fair values based on quoted prices in active markets in the statement of financial position. Unrealized gains and losses are included in investment return, net in the statement of activities.

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

The Organization's endowment was created from a contribution received on June 13, 1997, totaling \$225,000, 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 ("Foundation"). See Note K.

The restricted corpus is part of the Organization's investment account, which is governed by the Investment Policy adopted by the Foundation in May 2024. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Earnings on the endowment fund are classified as with donor restrictions.

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as with donor restrictions net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund; and (d) earnings on endowment funds invested until appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the Foundation and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the investment policies of the Foundation.

The Foundation's endowment investment policy and strategy is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income in an attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Withing this framework, specific investment objectives for endowment investments include liquidity, preservation of capital, preservation of purchasing power, and long-term growth of capital.

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to produce, after investment expenses, a minimum annual compound total rate of return of 5% in excess of the rate of inflation. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized), and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk parameters.

Endowment funds are maintained in pooled investment portfolios, Interest, dividends, and realized and unrealized gains and losses in the investment pools are allocated monthly to the endowment funds in proportion to each fund's share in the investment pools. The Foundation's spending policy is to allocate 5% per annum of the preceding thirty-six-month average fair value invested in the pool to each fund's distributable balance, which is available for program grants. If the fair value of the endowment principal of any fund, at the end of each month, is less than the corpus, which includes the initial and all subsequent gifts from donors, the distribution is limited to interest and dividends received. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment assets to grow at or above the average rate of inflation annually.

Revenue and Revenue Recognition

Disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from revenue streams that fall under *Revenue from Contracts with Customers (Topic 606)* are as follows:

Counseling Service – The Organization generates revenue from counseling services to support and strengthen children, youth, adults, families, schools and communities. Counseling services are considered exchange transactions by nature and are recognized at the time service is provided. Counseling service revenue was \$597,763 and \$547,141 for the years ended June 30, 2025 and 2024, respectively, and is included in counseling service revenue on the statements of activities.

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

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. Contributions and grants that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions and grants 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, 2025 and 2024. The Organization had grants/contracts receivable in the amount of \$773,864 and \$841,533 at June 30, 2025 and 2024, respectively, for qualifying expenditures that have been incurred, but not yet reimbursed to the Organization.

Advertising

The Organization expenses advertising costs as they are incurred. The total advertising expense for the years ended June 30, 2025 and 2024 was \$10,284 and \$13,522, respectively.

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.

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
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C. AVAILABILITY AND LIQUIDITY OF FINANCIAL ASSETS

The following represents the Organization's financial assets as of June 30, 2025, 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	\$ 407,447
Investment	74,955
Accounts receivable	-
Grants receivable	<u>773,864</u>
Total financial assets	1,256,266
Less amounts not available to be used within one year:	
Investment endowment	(74,955)
Restricted by donor with purpose restrictions	<u>-</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,181,311</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 \$500,000 line of credit to support temporary cash flow needs subject to board direction and restrictions.

D. INVESTMENTS

Investments are classified as follows at June 30:

	<u>2025</u>	<u>2024</u>
Investments, without donor restrictions	\$ -	\$ -
Investments, endowment (restricted)	<u>74,955</u>	<u>71,527</u>
	<u>\$ 74,955</u>	<u>\$ 71,527</u>

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

	<u>2025</u>	<u>2024</u>
Realized and unrealized gains (losses), net	\$ 3,787	\$ 2,940
Investment management fees	<u>(359)</u>	<u>(352)</u>
	<u>\$ 3,428</u>	<u>\$ 2,588</u>

PALOMAR FAMILY COUNSELING SERVICE, INC.
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E. RECEIVABLES

Receivables consist of the following at June 30:

	<u>2025</u>	<u>2024</u>
<u>Accounts receivable</u>		
Client services	\$ -	\$ 3,869
	<u>\$ -</u>	<u>\$ 3,869</u>
 <u>Grants receivable</u>		
Reimbursable grant contracts	\$ 773,864	\$ 841,533
	<u>\$ 773,864</u>	<u>\$ 841,533</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>2025</u>	<u>2024</u>
Buildings and improvements	\$ 1,647,335	\$ 1,647,335
Furniture, fixtures and equipment	311,375	311,375
Land	<u>470,589</u>	<u>470,589</u>
	2,429,299	2,429,299
Less: accumulated depreciation	<u>(1,211,424)</u>	<u>(1,114,716)</u>
	<u>\$ 1,217,875</u>	<u>\$ 1,314,583</u>

Depreciation expense for the years ended June 30, 2025 and 2024 was \$96,708 and \$91,713.

G. DEFERRED LOAN COST

Deferred loan cost consists of the following at June 30:

	<u>2025</u>	<u>2024</u>
Loan closing costs	\$ 19,347	\$ 19,347
Less: accumulated amortization	<u>(16,202)</u>	<u>(15,621)</u>
	<u>\$ 3,145</u>	<u>\$ 3,726</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, 2025 and 2024, amortization expense was \$581 and \$581, respectively.

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
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H. LONG-TERM DEBT

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

	<u>2025</u>	<u>2024</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.	\$ 255,355	\$ 275,681
Total long-term debt	255,355	275,681
Less: current portion	<u>(21,035)</u>	<u>(20,394)</u>
Noncurrent portion	<u>\$ 234,320</u>	<u>\$ 255,287</u>

Annual maturities of long-term debt outstanding at June 30, 2025 are as follows:

2026	\$ 21,035
2027	21,969
2028	22,379
2029	23,082
2030	23,808
2031 and thereafter	<u>143,082</u>
Total annual maturities	<u>\$ 255,355</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, 2025, the Organization was not in compliance with the provision to maintain an unrestricted EBIDA annually of not less than negative \$25,000. As of June 30, 2024, the Organization was in compliance with the loan covenants .

The total book value of the collateralized real property was approximately \$92,123 and \$100,760 at June 30, 2025 and 2024, 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 was collateralized by the Organization's assets. The line of credit fully transferred from First Republic Bank to JP Morgan/Chase in November 2024, and expired December 19, 2024. No balance was outstanding under the line of credit as of June 30, 2024.

In January 2025, the Organization signed a new \$500,000 line of credit with CalPrivate Bank. The line matures on January 8, 2027. Interest accrues on the outstanding balances at the U.S. Prime Rate (not to fall below 7.25%) and is payable monthly. The line is collateralized by the Organization's assets. No balance was outstanding under the line of credit as of June 30, 2025.

PALOMAR FAMILY COUNSELING SERVICE, INC.
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J. CASH FLOW INFORMATION

The Organization did not have any non-cash financing transactions for the years ended June 30, 2025 and 2024.

The Organization obtained right-of-use assets in exchange for new operating lease liabilities in the amount of \$94,201 and \$0 for the years ended June 30, 2025 and 2024, respectively.

K. RESTRICTED NET ASSETS

Changes in restricted net assets for the year ended June 30, 2025 are as follows:

<u>Purpose restrictions</u>	<u>2024</u>	<u>Additions</u>	<u>Released</u>	<u>2025</u>
Legacy Endowment				
(The Community Foundation)	\$ 1,200	\$ -	\$ (900)	\$ 300
Pala Band of Mission Indians	2,500	-	(2,500)	-
Rest Haven Children's Health Fund	15,040	-	(15,040)	-
San Diego Foundation Guy Clum Grant	70,000	-	(62,647)	7,353
San Diego Women's Foundation	53,283	-	(4,051)	49,232
San Diego Dr Seuss Foundation	5,500	-	(5,500)	-
SD County Neighborhood Reinvestment Program	-	40,000	-	40,000
Total temporarily restricted	<u>\$ 147,523</u>	<u>\$ 40,000</u>	<u>\$ (90,638)</u>	<u>\$ 96,885</u>

Changes in restricted net assets for the year ended June 30, 2024 are as follows:

<u>Purpose restrictions</u>	<u>2023</u>	<u>Additions</u>	<u>Released</u>	<u>2024</u>
City of Escondido Nonprofit Relief Grant	\$ 23,666	\$ -	\$ (23,666)	\$ -
Legacy Endowment				
(The Community Foundation)	-	1,200	-	1,200
Nordstrom Foundation Grant	7,000	-	(7,000)	-
Pala Band of Mission Indians	-	2,500	-	2,500
Parker Foundation Grant	25,000	-	(25,000)	-
Rest Haven Children's Health Fund	-	15,965	(925)	15,040
San Diego Foundation Guy Clum Grant	-	70,000	-	70,000
San Diego Women's Foundation	60,000	-	(6,717)	53,283
San Diego Dr Seuss Foundation	75,000	-	(69,500)	5,500
Total temporarily restricted	<u>\$ 190,666</u>	<u>\$ 89,665</u>	<u>\$ (132,808)</u>	<u>\$ 147,523</u>

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K. RESTRICTED NET ASSETS (CONTINUED)

Permanently 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>2025</u>	<u>2024</u>
Beginning value	\$ 71,527	\$ 68,939
Investment return, net	<u>3,428</u>	<u>2,588</u>
Ending value	<u>\$ 74,955</u>	<u>\$ 71,527</u>

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

	<u>2025</u>	<u>2024</u>
Temporarily restricted	\$ 96,885	\$ 147,523
Permanently restricted	<u>74,955</u>	<u>71,527</u>
	<u>\$ 171,840</u>	<u>\$ 219,050</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 \$242,123 and \$220,117 in excess of the FDIC coverage for the years ended June 30, 2025 and 2024, respectively.

M. REVENUE CONCENTRATION

The Organization received revenue on several contracts from San Diego County, which provided \$3,313,005, or approximately 60% of the Organization's total revenue for the year ended June 30, 2025. Accounts receivable from San Diego County was \$634,295 at June 30, 2025.

PALOMAR FAMILY COUNSELING SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
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N. MAJOR GRANT CONTRACTS

Public Contracts -The Organization had the following contracts for the years ended June 30, 2025 and 2024:

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 children experiencing social, emotional, and behavioral challenges aged birth through five years and their families. Initial grant contract terms covered 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 \$924,000 for the years ended June 30, 2025 and 2024, respectively. Total payments received were \$418,035 and \$801,429 for the years ended June 30, 2025 and 2024, 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 struggling with their mental health. 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, 2029. Award amounts totaled \$2,128,500 and \$2,128,500 for the years ended June 30, 2025 and 2024, respectively. Total payments received were \$1,105,606 and \$1,844,032 for the years ended June 30, 2025 and 2024, 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 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 \$947,821 and \$919,399 for the years ended June 30, 2025 and 2024, respectively. Total payments received were \$929,904 and \$885,125 for the years ended June 30, 2025 and 2024, respectively.

San Diego County – Screening to Care Initiative: contract with the San Diego County Department of Mental Health and Human Services to screen middle school students to determine social-emotional need and provide prevention and early intervention supports. Initial grant contract terms covered from October 1, 2023 through June 30, 2024 with the option to extend for two one-year increments and one six-month increment through December 31, 2026. Award amounts totaled \$1,688,600 and \$1,362,500 for the years ended June 30, 2025 and 2024, respectively. Total payments received were \$1,277,495 and \$497,520 for the years ended June 30, 2025 and 2024, respectively.

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

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.

Advocates for Human Potential (AHP) – BHRR: contract with the Advocates for Human Potential to support Behavioral Health Recruitment & Retention (BHRR) Project. Contract terms covered from July 1, 2023 through January 31, 2025. Award amounts totaled \$263,170 and \$263,170 for the years ended June 30, 2025 and 2024, respectively. Total payments received were \$48,512 and \$214,658 for the years ended June 30, 2025 and 2024, respectively.

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 \$0 and \$51,860 for the years ended June 30, 2025 and 2024, respectively. Total payments received were \$0 and \$51,860 for the years ended June 30, 2025 and 2024, respectively.

Mental Health Matters: contract with the Fallbrook Regional Health District to provide the Mental Health Matters program to the district community. The contract terms were for July 1, 2024 through June 30, 2025. Award amounts totaled \$48,828 and \$0 for the years ended June 30, 2025 and 2024, respectively. Total payments received were \$48,828 and \$0 for the years ended June 30, 2025 and 2024, 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, ending June 30, 2024. Award amounts totaled \$0 and \$15,000 for the years ended June 30, 2025 and 2024, respectively. Total payments received were \$0 and \$15,000 for the years ended June 30, 2025 and 2024, respectively.

Wellness Center: contract with the Fallbrook Regional Health District to provide comprehensive mental health services to meet the needs of children, youth, and adults in the district. The contract terms were for July 1 through June 30 of each fiscal year. Award amounts totaled \$56,160 and \$35,100 for the years ended June 30, 2025 and 2024, respectively. Total payments received were \$56,160 and \$20,790 for the years ended June 30, 2025 and 2024, respectively.

The five 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.

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

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 \$13,259 and \$10,000 for the years ended June 30, 2025 and 2024, respectively. Total payments received were \$13,259 and \$10,000 for the years ended June 30, 2025 and 2024, 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 \$981,796 and \$673,455 for the years ended June 30, 2025 and 2024, respectively. The project fee contracts are principally provided to various public school districts, private schools, or other nonprofit organizations 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.

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 \$64,239 and \$59,530 in matching contributions for eligible participants in the 403(b) plan for the years ended June 30, 2025 and 2024, respectively.

P. OPERATING LEASE COMMITMENTS

The Organization had a month-to-month lease agreement for garage storage with an unrelated party. The lease had a monthly payment of \$300. Total rent expense for the years ended June 30, 2025 and 2024 was \$150 and \$3,600, respectively.

The Organization pays for records storage and shredding. Total expense for these services for the years ended June 30, 2025 and 2024 was \$5,777 and \$5,894, respectively.

The Organization leases copy machines from an unrelated party under a five-year lease agreement that expired October 2025. The lease had a monthly payment of \$2,187 plus tax and fees. Effective October 9, 2024, the lease was replaced with another lease agreement that expires September 9, 2029. The lease has a monthly payment of \$2,059 plus tax and fees. Operating lease expense for this lease for the years ended June 30, 2025 and 2024 was \$30,340 and \$31,707, respectively.

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P. OPERATING LEASE COMMITMENTS (CONTINUED)

The Organization leases copy machines from an unrelated party under a five-year lease agreement that expired April 2024. The lease had a monthly payment of \$157 plus tax and fees. Upon expiration it became a month-to-month lease. Operating lease expense for this lease for the years ended June 30, 2025 and 2024 was \$855 and \$2,053, respectively.

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

	<u>2025</u>	<u>2024</u>
Weighted average lease term (in years) – operating lease	4.17	1.33
Weighted average discount rate – operating lease	0.89%	0.89%

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

2026	\$ 24,708
2027	24,708
2028	24,708
2029	24,708
2030	4,118
2031 and thereafter	<u>-</u>
	102,950
Less: present value discount	<u>(2,339)</u>
Lease liability	<u>\$ 100,611</u>

Lease liability and right-of-use asset are reflected in the accompanying statements of financial position as follows at June 30:

	<u>2025</u>	<u>2024</u>
Operating lease liability, current portion	\$ 24,490	\$ 26,016
Operating lease liability, noncurrent portion	<u>76,121</u>	<u>8,595</u>
Lease liability and right-of-use asset	<u>\$ 100,611</u>	<u>\$ 34,611</u>

Q. SUBSEQUENT EVENTS

In July 2025, the Organization sold their Vista building for \$616,150. A gain of \$374,931 was recognized on the sale. The Organization leased back the building for five years with a monthly rent of \$3,685 effective August 1, 2025.

Management has evaluated subsequent events through January 28, 2026, the date the financial statements were available to be issued. Management is not aware of any additional events that have occurred subsequent to June 30, 2025 that would require adjustment to, or disclosure in the financial statements.