

**INDEPENDENT AUDITOR'S REPORT AND  
FINANCIAL STATEMENTS  
OF  
PALOMAR FAMILY COUNSELING SERVICE, INC.  
JUNE 30, 2021 AND 2020**

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**TABLE OF CONTENTS**  
**JUNE 30, 2021 AND 2020**

Independent Auditor’s Report.....	1
Statements of Financial Position.....	2
Statements of Activities.....	3
Statements of Functional Expenses .....	4
Statements of Cash Flows .....	6
Notes to Financial Statements.....	7



**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, 2021 and 2020, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palomar Family Counseling Service, Inc. as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Covell, Jani & Pasch LLP*

Escondido, California  
March 24, 2022

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2021 AND 2020**

	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 619,884	\$ 1,159,752
Accounts receivable	638,956	428,621
Prepaid expenses	1,857	2,900
<b>TOTAL CURRENT ASSETS</b>	<b>1,260,697</b>	<b>1,591,273</b>
Property and equipment, net	1,275,608	1,263,431
Other Assets		
Investment, endowment (restricted)	72,955	58,824
Deferred loan cost, net	9,230	4,342
Refundable deposits	200	200
<b>TOTAL OTHER ASSETS</b>	<b>82,385</b>	<b>63,366</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,618,690</b>	<b>\$ 2,918,070</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable	\$ 8,228	\$ 5,979
Refundable advance	-	442,324
Accrued payroll liabilities	152,785	135,697
Long-term debt, current portion	18,585	21,604
<b>TOTAL CURRENT LIABILITIES</b>	<b>179,598</b>	<b>605,604</b>
Long-term Liabilities		
Long-term debt, noncurrent portion	314,704	327,937
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>314,704</b>	<b>327,937</b>
<b>TOTAL LIABILITIES</b>	<b>494,302</b>	<b>933,541</b>
Net Assets		
Without donor restrictions	1,964,051	1,924,706
With donor restrictions	160,337	59,823
<b>TOTAL NET ASSETS</b>	<b>2,124,388</b>	<b>1,984,529</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,618,690</b>	<b>\$ 2,918,070</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, 2021 AND 2020**

	<b>Year Ended June 30, 2021</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenue and Support</b>			
Contract service revenue	\$ 3,171,705	\$ 182,677	\$ 3,354,382
Counseling service revenue	561,151	-	561,151
Grant revenue	348,921	-	348,921
Donations	11,258	-	11,258
Interest and other income	4,980	-	4,980
Unrealized gain (loss) on investments	-	14,132	14,132
<b>Total Revenue and Support</b>	<b>4,098,015</b>	<b>196,809</b>	<b>4,294,824</b>
<b>Net Assets Released from Restrictions</b>			
Contract service revenue	96,295	(96,295)	-
<b>Total Net Assets Released from Restrictions</b>	<b>96,295</b>	<b>(96,295)</b>	<b>-</b>
	4,194,310	100,514	4,294,824
<b>Costs and Expenses</b>			
Program services	3,494,817	-	3,494,817
General and administrative	660,148	-	660,148
<b>Total Costs and Expenses</b>	<b>4,154,965</b>	<b>-</b>	<b>4,154,965</b>
<b>Change in Net Assets</b>	39,345	100,514	139,859
<b>Net assets at Beginning of Year</b>	<b>1,924,706</b>	<b>59,823</b>	<b>1,984,529</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 1,964,051</b>	<b>\$ 160,337</b>	<b>\$ 2,124,388</b>
	<b>Year Ended June 30, 2020</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenue and Support</b>			
Contract service revenue	\$ 3,264,375	\$ -	\$ 3,264,375
Counseling service revenue	524,009	-	524,009
Grant revenue	197,176	-	197,176
Donations	5,096	-	5,096
Interest and other income	3,521	-	3,521
Unrealized gain (loss) on investments	-	(2,129)	(2,129)
<b>Total Revenue and Support</b>	<b>3,994,177</b>	<b>(2,129)</b>	<b>3,992,048</b>
<b>Net Assets Released from Restrictions</b>			
Contract service revenue	3,000	(3,000)	-
Donations	395	(395)	-
<b>Total Net Assets Released from Restrictions</b>	<b>3,395</b>	<b>(3,395)</b>	<b>-</b>
	3,997,572	(5,524)	3,992,048
<b>Costs and Expenses</b>			
Program services	3,256,055	-	3,256,055
General and administrative	637,224	-	637,224
<b>Total Costs and Expenses</b>	<b>3,893,279</b>	<b>-</b>	<b>3,893,279</b>
<b>Change in Net Assets</b>	104,293	(5,524)	98,769
<b>Net assets at Beginning of Year</b>	<b>1,820,413</b>	<b>65,347</b>	<b>1,885,760</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 1,924,706</b>	<b>\$ 59,823</b>	<b>\$ 1,984,529</b>

See independent auditor's report and notes to financial statements

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2021**

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

See independent auditor's report and notes to financial statements

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

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
<b>Wages and Employee Benefits</b>			
Salaries	\$ 2,303,361	\$ 415,431	\$ 2,718,792
Payroll taxes	204,375	36,861	241,236
Health insurance	155,104	27,974	183,078
Worker compensation	15,672	2,827	18,499
Life AD&D and LTD	3,006	542	3,548
Vacation benefits	96,610	17,424	114,034
Retirement benefit matching	38,994	7,033	46,027
<b>Total Wages and Employee Benefits</b>	<u>2,817,122</u>	<u>508,092</u>	<u>3,325,214</u>
<b>Other Expenses</b>			
Advertising	5,296	955	6,251
Bank charges	1,612	291	1,903
Board and employee events	-	3,586	3,586
Consulting and contract services	100,650	1,166	101,816
Depreciation and amortization	-	48,372	48,372
Dues and subscriptions	2,350	424	2,774
Fingerprinting, TB, Immunization	1,834	331	2,165
Gift cards	1,200	-	1,200
Insurance	23,811	4,295	28,106
Interest	-	15,620	15,620
IT services	19,820	3,575	23,395
Legal and accounting	9,129	1,646	10,775
Maintenance	55,398	9,992	65,390
Office equipment lease	24,547	4,427	28,974
Office supplies	34,003	6,133	40,136
Payroll service fees	16,162	2,915	19,077
Postage	1,869	337	2,206
Printing	6,317	1,139	7,456
Program supplies	18,903	-	18,903
Rent-archives	4,014	724	4,738
Rent-Escondido	-	3,000	3,000
Rent-Poway	3,939	711	4,650
Taxes and license fees	3,614	652	4,266
Telephone	46,039	8,303	54,342
Training meetings	11,456	2,066	13,522
Travel	18,419	3,322	21,741
Utilities	28,551	5,150	33,701
<b>Total Other Expenses</b>	<u>438,933</u>	<u>129,132</u>	<u>568,065</u>
<b>Total Expenses</b>	<u>\$ 3,256,055</u>	<u>\$ 637,224</u>	<u>\$ 3,893,279</u>

See independent auditor's report and notes to financial statements

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 139,859	\$ 98,769
Adjustments to reconcile change in net assets provided by operating activities:		
Unrealized (gain) loss on investments	(14,132)	2,129
Depreciation and amortization	62,663	48,372
(Increase) decrease in operating assets:		
Accounts receivable	(210,335)	32,722
Prepaid expense	1,043	(782)
Other current assets	-	1,450
Increase (decrease) in operating liabilities:		
Accounts payable	2,249	(2,921)
Accrued liabilities	(442,324)	442,324
Accrued payroll expense	17,089	25,616
Total adjustments	<u>(583,747)</u>	<u>548,910</u>
Net cash provided by operating activities	<u>(443,888)</u>	<u>647,679</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	<u>(73,923)</u>	<u>(131,257)</u>
Net cash used in investing activities	<u>(73,923)</u>	<u>(131,257)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Cash paid on loan fees	(5,805)	-
Cash paid on long-term debt	<u>(16,252)</u>	<u>(20,639)</u>
Net cash provided by financing activities	<u>(22,057)</u>	<u>(20,639)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(539,868)	495,783
<b>CASH AND EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,159,752</u>	<u>663,969</u>
<b>CASH AND EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 619,884</u></u>	<u><u>\$ 1,159,752</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
<b>CASH PAID DURING THE YEAR FOR:</b>		
Interest expense	<u>\$ 12,020</u>	<u>\$ 15,620</u>

See independent auditor's report and notes to financial statements

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021 AND 2020**

**A. ORGANIZATION**

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

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

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Adoption of New Accounting Standard

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

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

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021 AND 2020**

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

Basis of Accounting

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

Financial Statement Presentation

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

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

**Net assets with donor restriction:** net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Cash and Cash Equivalents

The Organization considers 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 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, 2021 and 2020.

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021 AND 2020**

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

Use of Estimates

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

Property and Equipment

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

<u>Asset</u>	<u>Life</u>
Buildings and improvements	5 - 40 years
Furniture, 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.

Income Tax

The Organization is a not-for-profit public benefit corporation exempt from income tax under Section 501(c)(3) organization of the Internal Revenue Code and Section 23701(d) of the California State Revenue and Taxation Code, except for unrelated business activities or unrelated business income. During the years ended June 30, 2021 and 2020, there were no unrelated business activities or unrelated business income.

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021 AND 2020**

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

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions.

Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. When restrictions are satisfied in the same accounting period that the contribution is received, both the revenue and the related expense are reported in the unrestricted net asset class.

Contributed Goods and Services

The Organization records contributed goods and services when received at estimated fair market value. No amounts for contributed goods and services have been reflected in the financial statements for the years ended June 30, 2021 and 2020.

Functional Allocation of Expenses

The costs of providing program services have been summarized on a functional basis in the Statement of Functional Expenses. Based on estimates made by management, costs based on contract guidelines have been allocated between program services and general and administrative expenses at 86.17% and 13.83%, respectively, for the year ended June 30, 2021 and 84.72% and 15.28%, respectively, for the year ended June 30, 2020.

Advertising

The Organization expenses advertising costs as they are incurred. The total advertising expense for the years ended June 30, 2021 and 2020 was \$4,320 and \$6,251, respectively.

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021 AND 2020**

**C. AVAILABILITY AND LIQUIDITY**

The following represents the Organization's financial assets as of June 30, 2021, 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	\$ 619,884
Investment	<u>72,955</u>
Total financial assets	692,839
Less amounts not available to be used within one year:	
Investment endowment	(72,955)
Restricted by donor with purpose restrictions	<u>-</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 619,884</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.

**D. CASH FLOW INFORMATION**

The Organization did not have any non-cash financing transactions for the years ended June 30, 2021 and 2020.

**E. INVESTMENTS**

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

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

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021 AND 2020**

**F. PROPERTY AND EQUIPMENT**

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

	<u>2021</u>	<u>2020</u>
Buildings and improvements	\$ 1,487,190	\$ 1,478,812
Furniture, fixtures and equipment	185,369	119,825
Land	<u>470,589</u>	<u>470,589</u>
	2,143,148	2,069,226
Less: accumulated depreciation	<u>(867,540)</u>	<u>(805,795)</u>
	<u>\$ 1,275,608</u>	<u>\$ 1,263,431</u>

Depreciation expense for the years ended June 30, 2021 and 2020 was \$61,746 and \$47,793.

**G. DEFERRED LOAN COST**

Deferred loan cost consists of the following at June 30:

	<u>2021</u>	<u>2020</u>
Loan closing costs	\$ 19,347	\$ 13,541
Less: accumulated amortization	<u>(10,117)</u>	<u>(9,199)</u>
	<u>\$ 9,230</u>	<u>\$ 4,342</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, 2021 and 2020, amortization expense was \$917 and \$579, respectively.

**H. LINE OF CREDIT**

The Organization had a line of credit with First Republic Bank in the amount of \$200,000 at the U.S. Prime rate plus .50% per annum. Calculated interest was payable monthly. The line was collateralized by the Organization's assets. The line of credit expired December 19, 2021. On December 3, 2021, the line was renewed under the same terms until December 19, 2022. No balance was outstanding under the line of credit as of June 30, 2021 and 2020.

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021 AND 2020**

**I. LONG-TERM DEBT**

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

	<u>2021</u>	<u>2020</u>
Note payable to the bank in monthly installments of \$3,022 including interest at 4.25% maturing December 2027, with a lump payment of \$165,837. Secured by real property. The loan was refinanced in December 2020.	\$ -	\$ 349,541
Note payable to the bank in monthly installments of \$2,388 including interest at 3.10% maturing December 2030, with a lump payment of \$133,491. Secured by real property.	<u>\$ 333,289</u>	<u>\$ -</u>
Total long-term debt	333,289	349,541
Less: current portion	<u>(18,585)</u>	<u>(21,604)</u>
Noncurrent portion	<u>\$ 314,704</u>	<u>\$ 327,937</u>

Annual maturities of long-term debt outstanding at June 30, 2021 are as follows:

2022	\$ 18,585
2023	19,169
2024	19,772
2025	20,394
2026	21,035
2027 and thereafter	<u>234,334</u>
Total annual maturities	<u>\$ 333,289</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, 2021 and 2020, the Organization was in compliance with the loan covenants.

The total approximate book value of the collateralized real property was approximately \$126,668 and \$135,304 at June 30, 2021 and 2020, respectively.

**J. CONCENTRATIONS OF CREDIT RISK**

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash deposits and investment securities in bank and financial institutions. The Organization maintains cash and cash equivalents and short and long-term investments with major banks and financial institutions. Accounts at banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. The Organization had balances of \$497,597 and \$1,028,344 in excess of the FDIC coverage for the years ended June 30, 2021 and 2020, respectively.

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021 AND 2020**

**K. RESTRICTED NET ASSETS**

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

<u>Purpose restrictions</u>	<u>2020</u>	<u>Additions</u>	<u>Released</u>	<u>2021</u>
City of Poway	\$ 1,000	\$ 1,000	\$ (1,000)	\$ 1,000
CARES Act Provider Relief Fund	-	73,843	(47,000)	26,843
Neighborhood Reinvestment Prog	-	50,000	(19,728)	30,272
Escondido clients and families	-	20,000	(14,240)	5,760
Teen Life Skills	-	15,574	(14,327)	1,247
Grandparents Raising Grandchildren	-	11,000	-	11,000
Telehealth Svcs	-	10,000	-	10,000
Docusign purchase	-	1,260	-	1,260
Total temporarily restricted	<u>\$ 1,000</u>	<u>\$ 182,677</u>	<u>\$ (96,295)</u>	<u>\$ 87,382</u>

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

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

**Permanently Restricted**

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

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

Changes in endowment net assets as of June 30, 2021 are as follows:

Value at June 30, 2020	\$ 58,823
Change in net assets	<u>14,132</u>
Value at June 30, 2021	<u>\$ 72,955</u>

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

Value at June 30, 2019	\$ 60,953
Change in net assets	<u>(2,129)</u>
Value at June 30, 2020	<u>\$ 58,824</u>

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021 AND 2020**

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

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

	<u>2021</u>	<u>2020</u>
Temporarily restricted	\$ 87,382	\$ 1,000
Permanently restricted	<u>72,955</u>	<u>58,823</u>
	<u>\$ 160,337</u>	<u>\$ 59,823</u>

**L. CONTRACT SERVICE REVENUE**

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

**Public Contracts** -The Organization had the following contracts for the years ended June 30, 2021 and 2020:

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 six-year extension through June 30, 2021. Award amounts totaled \$468,590 and \$468,590 for the years ended June 30, 2021 and 2020. Total payments received were \$447,578 and \$432,957 for the years ended June 30, 2021 and 2020, respectively.

San Diego County – Full Service Partnership: contract with the San Diego County Department of Health and Human Services to provide a certified outpatient behavioral health program and provide a full range of Title 9 out-patient diagnostic and treatment services for children, adolescents, and young adults up to age 21 who are seriously emotionally disturbed. The program in its entirety is a Full Service Partnership (FSP) model that offers integrated services with an emphasis on whole person wellness and promotes access to medical, social, rehabilitative, and other community services and supports needed. Initial grant contract terms covered a one-year period with an additional four year extension through June 30, 2024. Award amounts totaled \$1,470,343 and \$1,617,377 for the years ended June 30, 2021 and 2020, respectively. Total payments received were \$1,403,515 and \$1,370,424 for the years ended June 30, 2021 and 2020, respectively.

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

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021 AND 2020**

**L. CONTRACT SERVICE REVENUE (CONTINUED)**

San Diego County – North Coastal Prevention & Early Intervention: contract with the San Diego County Department of Health and Human Services to provide social-emotional health evidence-based prevention and early intervention (PEI) services for preschool and elementary school age children at public schools in the Oceanside and Vista Unified School Districts. The contract terms were for July 1 through June 30 of each fiscal year. Award amounts totaled \$692,258 and \$692,258 for the years ended June 30, 2021 and 2020, respectively. Total payments received were \$619,529 and \$692,258 for the years ended June 30, 2021 and 2020, respectively.

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

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

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

San Diego County – Neighborhood Reinvestment Program: contract with the San Diego County Board of Supervisors Dist 5 to help with the purchase of equipment such as acrylic guards, computers, tablets, and electronic health record system, and to update accessibility of their facility with automobile swing doors. The contract term was for April 6, 2021 through May 6, 2022. The amount awarded and received for the year ended June 30, 2021 was \$15,000. As of June 30, 2021, none of the funds have been used.

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

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

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021 AND 2020**

**L. CONTRACT SERVICE REVENUE (CONTINUED)**

Healthy Bodies, Healthy Minds: contract with the Fallbrook Regional Health District to provide the Healthy Bodies, Healthy Minds program to the district community. The contract terms were for July 1 through June 30 of each fiscal year. Award amounts totaled \$66,581 and \$67,423 for the years ended June 30, 2021 and 2020, respectively. Total payments received were \$66,581 and \$67,423 for the years ended June 30, 2021 and 2020, respectively.

Grandparents Raising Grandchildren: contract with the Fallbrook Regional Health District to provide the Grandparents Raising Grandchildren program to the district community. The contract term was for July 1, 2020 through June 30, 2021. Award amounts totaled \$37,252 and \$0 for the years ended June 30, 2021 and 2020, respectively. Total payments received were \$37,252 and \$0 for the years ended June 30, 2021 and 2020, respectively.

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

Vista CDGB-YRD: contract with the City of Vista to provide counseling and case management services to low-income at-risk youth, children and their families. The contract terms were for July 1 through June 30 of each fiscal year. Award amounts totaled \$10,000 and \$14,300 for the years ended June 30, 2021 and 2020, respectively. Total payments received were \$10,000 and \$14,300 for the years ended June 30, 2021 and 2020, 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 \$477,724 and \$539,981 for the years ended June 30, 2021 and 2020, 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.

**M. REVENUE CONCENTRATION**

The Organization receives revenue for several contracts from San Diego County, which provided \$2,574,645, or approximately 60% of the Organization's total revenue for the year ended June 30, 2021. Accounts receivable from San Diego County was \$571,233 at June 30, 2021.

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021 AND 2020**

**N. RETIREMENT PLANS**

The Organization offers a voluntary 403(b) savings plan for management employees qualified under Internal Revenue Code Section 403(b) and a tax deferred annuity for non-management employees. The Organization paid \$54,093 and \$46,027 in matching employee contributions for eligible participants in the 403(b) plan for the years ended June 30, 2021 and 2020, respectively.

**O. OPERATING LEASE ARRANGEMENTS**

The Organization had a lease agreement with an unrelated party for its office in Poway, California for \$1,450 per month, that expired in July 2018. The Organization paid rent at this location on a month-to-month basis through July 2019, at which time the Organization began using a new location in Poway. Total rent expense for the years ended June 30, 2021 and 2020 was \$0 and \$250, respectively.

A facility use agreement was signed with an unrelated party effective August 1, 2019 at a new location in Poway for \$400 per month, expiring July 31, 2020 with an annual option to renew. The lease was renewed on a month to month basis for \$200 per month. Total rent expense for the years ended June 30, 2021 and 2020 was \$2,600 and \$4,400, respectively.

The Organization has a lease agreement for garage storage with an unrelated party through December 2019 for \$250 per month. The lease was renewed on the same terms through December 2021. Total rent expense for the years ended June 30, 2021 and 2020 was \$3,000 and \$3,000, respectively.

The Organization also pays for records storage and shredding. Total expense for these services for the years ended June 30, 2021 and 2020 was \$4,683 and \$4,738, respectively.

The Organization leases copy machines from an unrelated party under a five year lease agreement that expires October 2025. The lease had a monthly payment of \$2,198 which increased to \$2,357 on January 2022. Operating lease expense for this lease for the years ended June 30, 2021 and 2020 was \$20,005 and \$26,957, respectively.

The Organization leases copy machines from an unrelated party under a five year lease agreement that expires April 2024. The lease had a monthly payment of \$169. Operating lease expense for this lease for the years ended June 30, 2021 and 2020 was \$2,061 and \$2,017, respectively.

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021 AND 2020**

**O. OPERATING LEASE ARRANGEMENTS (CONTINUED)**

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

2022	\$	30,307
2023		30,307
2024		29,969
2025		28,282
2026		9,427
2027 and thereafter		-
		\$ 128,292

**P. COVID-19 PANDEMIC**

During March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2022.

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

**Q. CORONAVIRUS AID, RELIEF AND ECONOMIC SECURITY ACT/ADOPTION OF ACCOUNTING POLICY**

PPP loan

The Paycheck Protection Program (“PPP”) was established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), the PPP provides for loans to qualifying businesses in amounts up to 2.5 times the business’s average monthly payroll expenses. PPP loans and accrued interest are forgivable after a “covered period” (eight or 24 weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries during the covered period. Any unforgiven portion of a PPP loan is payable over two or five years at an interest rate of 1%, with a deferral of payments for 10 months after the end of the covered period.

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

**PALOMAR FAMILY COUNSELING SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021 AND 2020**

**Q. CORONAVIRUS AID, RELIEF AND ECONOMIC SECURITY ACT/ADOPTION OF ACCOUNTING POLICY (CONTINUED)**

PPP loan (Continued)

For the year ending June 30, 2020, management and the Board of Directors were of the opinion that not all PPP funds awarded would be necessary to maintain current staffing as many other funding sources were still in place. Accordingly, the funds were accounted for in accordance with FASB ASC 958-605 whereby the PPP loan funds were treated as a conditional governmental grant and recorded as a refundable advance. As the qualifying payroll expenses were incurred, the Organization recognized contribution revenue and decreased the refundable advance. The amount of funds included in grant revenue in the statement of activities for the years ended June 30, 2021 and 2020, was \$348,921 and \$187,176, respectively. The amount of refundable advance was \$0 and \$442,324 as of June 30, 2021 and 2020, respectively.

EIDL Advance

The SBA provided the opportunity, as part of the PPP loan application, to obtain an Economic Injury Disaster Loan Advance (EIDL) up to \$10,000 in order to provide emergency economic relief to businesses that were currently experiencing a temporary loss of revenue. The advance does not have to be repaid. The Organization received an EIDL advance in the amount of \$10,000 on April 21, 2020. It is included in grant revenue in the statement of activities for the year ended June 30, 2020.

**R. RECLASSIFICATION**

Office supplies on the previously reported statement of functional expenses for the year ended June 30, 2020 inadvertently included \$28,974 in office equipment lease. This amount has been reclassified and, as a result, office supplies decreased and office equipment lease increased with no change in total functional expenses for the year ended June 30, 2020.

**S. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through March 24, 2022, the date the financial statements were available to be issued. Management is not aware of any events that have occurred subsequent to June 30, 2021 that would require adjustment to, or disclosure in the financial statements.