



SANTA BARBARA NEIGHBORHOOD CLINICS

INDEPENDENT AUDITOR'S REPORTS,
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2019 AND 2018

SANTA BARBARA NEIGHBORHOOD CLINICS
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Santa Barbara Neighborhood Clinics

We have audited the accompanying financial statements of Santa Barbara Neighborhood Clinics (the "Organization") (a nonprofit corporation) which comprise the statement of financial position as of June 30, 2019 and 2018, and 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable 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 the Organization as of June 30, 2019 and 2018, and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2019, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to



describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

DAMITZ, BROOKS, NIGHTINGALE, TURNER & MORRISSET

Damitz, Brooks, Nightingale,
Turner & Morrisset
December 18, 2019



**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Santa Barbara Neighborhood Clinics

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Santa Barbara Neighborhood Clinics (the “Organization”) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 18, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DAMITZ, BROOKS, NIGHTINGALE, TURNER & MORRISSET

Damitz, Brooks, Nightingale,
Turner & Morrisset
December 18, 2019

SANTA BARBARA NEIGHBORHOOD CLINICS
Statements of Financial Position
June 30, 2019 and 2018

<i>Assets</i>	Without Donor Restrictions	With Donor Restrictions	2019	Without Donor Restrictions	With Donor Restrictions	2018
<i>Current Assets</i>						
Cash and cash equivalents	\$ 2,688,353	\$ 1,122,733	\$ 3,811,086	\$ 3,645,939	\$ 128,624	\$ 3,774,563
Accounts and pledge receivable, net	3,529,065	30,000	3,559,065	1,925,351	30,000	1,955,351
Prepaid expenses and deposits	66,419	-	66,419	51,434	-	51,434
Inventory, net	133,396	-	133,396	128,582	-	128,582
<i>Total current assets</i>	6,417,233	1,152,733	7,569,966	5,751,306	158,624	5,909,930
<i>Other Assets</i>						
Accounts and pledge receivable, net	-	127,452	127,452	-	154,663	154,663
Present value of future receivable on charitable remainder trust	-	527,510	527,510	-	553,856	553,856
Assets held in trust	20,462	-	20,462	-	-	-
Construction in progress	66,675	-	66,675	30,439	-	30,439
Property and equipment, net	5,293,758	-	5,293,758	5,614,292	-	5,614,292
<i>Total other assets</i>	5,380,895	654,962	6,035,857	5,644,731	708,519	6,353,250
<i>Total assets</i>	\$ 11,798,128	\$ 1,807,695	\$ 13,605,823	\$ 11,396,037	\$ 867,143	\$ 12,263,180
<i>Liabilities and Net Assets</i>						
<i>Current Liabilities</i>						
Accounts payable	\$ 1,388,575	\$ -	\$ 1,388,575	\$ 950,913	\$ -	\$ 950,913
Accrued liabilities	1,089,777	-	1,089,777	1,059,990	-	1,059,990
Cash overdraft	-	-	-	133,344	-	133,344
Deferred revenue	50,000	-	50,000	50,000	-	50,000
Current portion of long-term debt	75,969	-	75,969	70,133	-	70,133
Current portion of capital lease	23,183	-	23,183	27,867	-	27,867
<i>Total current liabilities</i>	2,627,504	-	2,627,504	2,292,247	-	2,292,247
<i>Other Liabilities</i>						
Long-term debt	542,367	-	542,367	668,421	-	668,421
Capital lease	16,861	-	16,861	37,468	-	37,468
<i>Total other liabilities</i>	559,228	-	559,228	705,889	-	705,889
<i>Total liabilities</i>	3,186,732	-	3,186,732	2,998,136	-	2,998,136
<i>Net Assets</i>						
Without donor restrictions	8,611,396	-	8,611,396	8,397,901	-	8,397,901
With donor restrictions	-	1,807,695	1,807,695	-	867,143	867,143
<i>Total net assets</i>	8,611,396	1,807,695	10,419,091	8,397,901	867,143	9,265,044
<i>Total net assets</i>	\$ 11,798,128	\$ 1,807,695	\$ 13,605,823	\$ 11,396,037	\$ 867,143	\$ 12,263,180

SANTA BARBARA NEIGHBORHOOD CLINICS

Statements of Activities

Years Ended June 30, 2019 and 2018

	Without Donor Restrictions	With Donor Restrictions	2019	Without Donor Restrictions	With Donor Restrictions	2018
<i>Public Support and Revenue</i>						
<i>Public Support</i>						
Contributions	\$ 2,697,849	\$ 994,109	\$ 3,691,958	\$ 1,522,663	\$ 13,089	\$ 1,535,752
Grants	2,153,086	-	2,153,086	2,354,895	-	2,354,895
In-kind contributions	460,639	-	460,639	1,116,430	-	1,116,430
Net assets released from restrictions	27,211	(27,211)	-	-	-	-
<i>Total public support</i>	5,338,785	966,898	6,305,683	4,993,988	13,089	5,007,077
<i>Revenue</i>						
Program service fees	12,834,359	-	12,834,359	11,939,015	-	11,939,015
Interest income	1,208	-	1,208	1,008	-	1,008
Change in value of charitable remainder trust	-	(26,346)	(26,346)	-	(39,969)	(39,969)
Other income	7,116	-	7,116	27,277	-	27,277
<i>Total revenue</i>	12,842,683	(26,346)	12,816,337	11,967,300	(39,969)	11,927,331
<i>Total public support and revenue</i>	18,181,468	940,552	19,122,020	16,961,288	(26,880)	16,934,408
<i>Expenses</i>						
Program services	15,037,769	-	15,037,769	14,232,239	-	14,232,239
Management and general	2,525,713	-	2,525,713	2,249,807	-	2,249,807
Fundraising	404,491	-	404,491	163,893	-	163,893
<i>Total expenses</i>	17,967,973	-	17,967,973	16,645,939	-	16,645,939
<i>Increase (decrease) in net assets</i>	213,495	940,552	1,154,047	315,349	(26,880)	288,469
<i>Net assets, beginning of year</i>	8,397,901	867,143	9,265,044	8,082,552	894,023	8,976,575
<i>Net assets, end of year</i>	\$ 8,611,396	\$ 1,807,695	\$ 10,419,091	\$ 8,397,901	\$ 867,143	\$ 9,265,044

The accompanying notes are an integral part of these financial statements.

SANTA BARBARA NEIGHBORHOOD CLINICS

Statements of Functional Expenses

Years Ended June 30, 2019 and 2018

	Supporting Services				Supporting Services			
	Program Services	Management and General	Fundraising	2019	Program Services	Management and General	Fundraising	2018
Salaries	\$ 8,352,621	\$ 1,190,021	\$ 112,789	\$ 9,655,431	\$ 7,360,889	\$ 1,254,642	\$ 16,772	\$ 8,632,303
Payroll taxes	602,823	76,615	8,496	687,934	524,932	122,759	-	647,691
Employee benefits	818,598	382,241	8,443	1,209,282	825,663	205,977	-	1,031,640
Total salaries and benefits	9,774,042	1,648,877	129,728	11,552,647	8,711,484	1,583,378	16,772	10,311,634
Consulting services	56,853	66,293	140,520	263,666	73,822	74,170	124,960	272,952
Contract labor	966,596	229,337	-	1,195,933	904,960	191,768	-	1,096,728
Professional development	163,819	117,103	19,065	299,987	131,714	112,635	1,622	245,971
Equipment leases	609	3,492	-	4,101	3,071	2,294	-	5,365
Information technology	423,407	83,069	233	506,709	389,919	113,336	4,086	507,341
Insurance	92,981	-	-	92,981	93,640	-	-	93,640
Interest	-	33,482	-	33,482	37	39,440	-	39,477
Occupancy	291,570	23,452	-	315,022	305,719	10,091	-	315,810
Operating expenses	143,887	35,797	43,325	223,009	156,585	47,056	43	203,684
Outside services	89,555	138,954	10,254	238,763	62,776	49,013	14,108	125,897
Labor relations	1,718	-	-	1,718	-	4,136	195	4,331
Printing and postage	77,815	20,132	61,135	159,082	78,912	5,667	1,861	86,440
Rent	488,144	-	-	488,144	483,962	-	-	483,962
Supplies	1,805,256	103,562	231	1,909,049	2,263,610	-	246	2,263,856
Telephone	69,761	4,251	-	74,012	58,372	3,135	-	61,507
Depreciation	591,756	17,912	-	609,668	513,656	13,688	-	527,344
	<u>\$ 15,037,769</u>	<u>\$ 2,525,713</u>	<u>\$ 404,491</u>	<u>\$ 17,967,973</u>	<u>\$ 14,232,239</u>	<u>\$ 2,249,807</u>	<u>\$ 163,893</u>	<u>\$ 16,645,939</u>

The accompanying notes are an integral part of these financial statements.

SANTA BARBARA NEIGHBORHOOD CLINICS

Statements of Cash Flows

Years Ended June 30, 2019 and 2018

	2019	2018
<i>Cash flows from operating activities</i>		
Cash received from unrestricted revenues and support, net	\$ 15,977,270	\$ 15,426,783
Cash received from temporarily restricted contributors	994,109	68,481
Interest income	1,208	1,008
Cash paid for salaries and related expenses	(11,522,860)	(10,266,863)
Cash paid for other operating costs	(4,908,843)	(4,153,520)
Interest paid	(33,482)	(39,477)
<i>Net cash provided by operating activities</i>	507,402	1,036,412
<i>Cash flows from investing activities</i>		
Purchase of property and equipment and increase in construction in progress	(325,370)	(804,005)
<i>Net cash used by investing activities</i>	(325,370)	(804,005)
<i>Cash flows from financing activities</i>		
Payments on long-term debt	(120,218)	(114,260)
Payments on notes payable	-	(8,656)
Payments on capital lease	(25,291)	(25,291)
<i>Net cash used by financing activities</i>	(145,509)	(148,207)
Net increase in cash and cash equivalents	36,523	84,200
<i>Cash and cash equivalents, beginning of year</i>	3,774,563	3,690,363
<i>Cash and cash equivalents, end of year</i>	\$ 3,811,086	\$ 3,774,563
Reconciliation of increase in net assets to net cash provided by operating activities		
Increase in net assets	\$ 1,154,047	\$ 288,469
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	609,668	527,344
Change in value of charitable remainder trust	26,346	39,969
(Increase) decrease in:		
Accounts and pledge receivable	(1,576,503)	(469,977)
Prepaid expenses and deposits	(14,985)	16,191
Inventory	(4,814)	(44,983)
Asset held in trust	(20,462)	-
Increase in:		
Accounts payable	437,662	451,284
Accrued liabilities	29,787	44,771
Cash overdraft	(133,344)	133,344
Deferred revenue	-	50,000
<i>Net cash provided by operating activities</i>	\$ 507,402	\$ 1,036,412

The accompanying notes are an integral part of these financial statements.

SANTA BARBARA NEIGHBORHOOD CLINICS
Notes to Financial Statements
June 30, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Santa Barbara Neighborhood Clinics (the “Organization”) is presented to assist in understanding the Organization’s financial statements. The financial statements and notes are representations of the Organization’s management, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and have been consistently applied in the preparation of the financial statements.

Nature of Activities

The Santa Barbara Neighborhood Clinics is organized as a nonprofit corporation to provide health care services to all people regardless of their ability to pay, especially those uninsured, underinsured, and otherwise underserved. The target population served includes low income, children, adults and homeless persons. The Organization’s eight sites and services provided are as follows:

<i>Site</i>	<i>Services Provided</i>
Bridge Clinic	Medical and Behavioral Health Care, including treatment for Substance Use Disorders.
Eastside Neighborhood Clinic	Medical and Behavioral Health Care, including Health Education and Wellness Promotion Services, and Chronic Care Management
Eastside Family Dental Clinic	Dental and Oral Health Care.
Integrated Care Clinic	Medical and Dental Care, and Behavioral Health provided through partnership with Sanctuary Centers of Santa Barbara.
Isla Vista Neighborhood Clinic	Medical and Behavioral Health, and Chronic Care Management.
Goleta Clinic	Medical Care, Behavioral Health Care, including Health Education and Wellness Promotion Services, including Chronic Care Management, and EyePACS, retinal imaging.
Goleta Dental Clinic	Dental and Oral Health Care.
Westside Clinic	Medical and Behavioral Health Care, including Health Education and Wellness Promotion Services, and Chronic Care Management.

Financial Statement Presentation

GAAP requires that the Organization report information regarding its financial position and activities according to two classes of net assets based on the existence and nature of donor imposed restrictions as follows:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Net assets without donor restrictions: 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 management and the board of directors. Net assets without donor restrictions generally result from contributions without donor restrictions, program service revenue, and fundraising and other administrative expenses.

Net assets with donor restrictions: Net assets subject to stipulations imposed by the government or donors. 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 permanent in nature, whereby the donor has stipulated the funds be maintained in perpetuity. As of June 30, 2019 and 2018 there were no donor restricted funds that were permanent in nature.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consists of cash on hand and cash in banks.

Revenue Recognition

Generally accepted accounting principles require the Organization to differentiate between exchange transactions and contributions. Due to the nature of the Federal grants and contracts, the Organization has determined funds received under grants and contracts to be exchange transactions. Accordingly, the Organization recognizes these grants and contracts as earned revenue as those costs are incurred and subsequently invoiced to the appropriate government agency. Program service revenue is recognized based on the date of service. Revenue is recorded in the amount which the Organization expects to collect. Amounts due at year end are recorded in accounts receivable.

The Organization provides charity care to eligible patients based upon the individual patient's financial resources. The Organization's policy provides charity care to patients with income to up 200% of the federal poverty guidelines. Records are kept to identify, approve, and monitor those costs that are incurred under the sliding fee scale determination policy. Estimated charges for charity care are not included in revenue.

Contributions and Grants

Contributions are recorded at their fair value on the date of donation. All contributions and grants are considered to be without donor restrictions unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as contributions with donor restrictions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In-kind Contributions

Numerous volunteers give their time and expertise to the Organization in a wide variety of areas to further its program and objectives. This contribution, despite its considerable value to the mission of the Organization, is not reflected in the financial statements as it does not meet the criterion required by GAAP. Donated medical supplies and program related materials are reflected as contributions in the accompanying statements at their estimated fair market values at the date of receipt.

Functional Expenses

The Organization allocates its expenses on a functional basis among its various program and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their expenditure classification. Other expenses that are common to several functions are allocated by time spent by the Organization's employees or square footage utilized in each respective function.

Accounts Receivable

The Organization's accounts receivable consists of amounts due from state and federal medical funding agencies for medical, dental, and behavioral services provided to patients. As of June 30, 2019 and 2018, based on management's analysis historical receivable collections, management has established a provision for contractual allowances. Management calculates the provision by contract financial classification (Medi-Cal, Medicare, private insurance, uninsured (self-pay)) and measures historical collection rates to calculate an allowance based on outstanding receivables by weighted average of outstanding receivables in each classification. The Organization does not require collateral from its funding agencies.

Inventory

The Organization's inventory consists of medical and pharmaceutical supplies located at the various clinic sites. Inventory is valued at the lower of cost or market.

Tax Exempt Status

The Organization is an exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and Section 23701(d) of the California Revenue and Taxation Code, and is considered a public charity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Uncertain Tax Positions

Financial Accounting Standards Board's ASC 740-10, *Accounting for Uncertainty in Income Taxes*, prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Organization files tax returns in the U.S. federal jurisdiction and in the state of California. The Organization's tax returns from the year 2016 to the present remain subject to examination by the IRS for federal tax purposes, and the tax years from 2015 to the present remain subject to examination by the state of California. Management has evaluated its tax positions for all jurisdictions in which the statute of limitations remains open and has determined that the Organization had taken no uncertain tax positions that require adjustment to the financial statements. The Organization had no unrecognized tax benefits related to tax positions taken during the years ended June 30, 2019 and 2018 or for prior periods.

Property and Equipment

Property and equipment are stated at cost or, if acquired by gift, at the fair market value at the date of donation. Expenditures for building improvements and major renewals in excess of \$1,000 that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

	<u>Years</u>
Buildings and improvements	30-40
Furniture, computers, and equipment	3-10

Use of Estimates

Financial statements prepared in accordance with GAAP require management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

New Accounting Pronouncement

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization implemented ASU 2016-14 and adjusted the presentation of the financial statements accordingly.

Subsequent Events

Management has evaluated subsequent events through December 18, 2019, the date that the financial statements were available to be issued.

2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following as of June 30, 2019:

Cash and cash equivalents	\$ 2,688,353
Accounts and pledges receivable, net	<u>3,529,065</u>
	<u>\$ 6,217,418</u>

Additional funds will be received from program service fee revenues as well as donor contributions and grants. These sources of funds are expected to meet the amounts needed to fund the operations of the Organization for the fiscal year ending June 30, 2020.

3. ACCOUNTS AND PLEDGE RECEIVABLE

Accounts receivable consist primarily of amounts due from state and federal government agencies primarily related to patient services, contracts, and grants. The accounts receivable amounts are considered collectible within one year and therefore no present value discounts have been recorded. Contractual allowances based on historical collection rates have been recorded.

The pledge receivable represents future payments from a trust where the Organization is a beneficiary. The pledge receivable has been discounted based on the present value of future pledge payments.

During the year ended June 30, 2019, the Department of Health Care Services completed a pre-audit analysis of the Organization's Federally Qualified Health Center Medi-Cal and Medicare reconciliation requests under the Prospective Payment System ("PPS"). As a result of the pre-audit, the PPS rates of the Organization's clinics were retroactively increased for the fiscal years ended June 30, 2014 through 2018 and the Organization recognized a receivable for the retroactive settlement amount during the year ended June 30, 2019.

3. ACCOUNTS AND PLEDGE RECEIVABLE (Cont.)

The current portion of accounts and pledge receivables consists of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Patient fees and insurance	\$ 3,981,961	\$ 2,646,195
CenCal Incentive	280,568	268,314
County and City of Santa Barbara	2,000	18,512
Grants receivable	962	275,770
Medicare and other	26,380	11,597
Medi-Cal reconciliation settlement	1,077,059	-
Medicare reconciliation settlement	220,692	-
Pledge receivable	<u>30,000</u>	<u>30,000</u>
	5,619,622	3,250,388
Less: provision for contractual allowances	<u>(2,060,557)</u>	<u>(1,295,037)</u>
	<u>\$ 3,559,065</u>	<u>\$ 1,955,351</u>

The non-current portion of accounts and pledge receivables consists of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Pledge receivable	\$ 180,000	\$ 210,000
Less: discount on long-term pledge receivable	<u>(52,548)</u>	<u>(55,337)</u>
	<u>\$ 127,452</u>	<u>\$ 154,663</u>

In the year ended June 30, 2016, a pledge in the amount of \$300,000 payable over ten years was received by the Organization. A discount on the long-term pledge of 6% to recognize the present value of the long term pledge. Pledge payments are expected to be received as follows:

2021	\$ 30,000
2022	30,000
2023	30,000
2024	30,000
2025	30,000
Thereafter	<u>60,000</u>
	210,000
Less: discount on long-term pledge receivable	<u>(52,548)</u>
	<u>\$ 157,452</u>

3. ACCOUNTS AND PLEDGE RECEIVABLE (Cont.)

On July 1, 2018, the Organization executed a grant agreement with Santa Barbara Cottage Hospital, which provided equal annual installments of \$1,000,000 beginning in 2018 and continuing through 2022. The grant terms require that of the \$1,000,000 annual payment, a minimum of \$500,000 is allocated to capital projects and a maximum of \$500,000 is allocated to operational expenses of the Organization. Each annual payment is conditioned on the Organization meeting certain criteria specified by the grantor. When the Organization meets the criteria for payments, it will be recognized as grant income. For the year-ended June 30, 2019, the maximum grant of \$500,000 for operational expenses was received, however, the \$500,000 for capital projects was not received as conditions were not met.

On August 21, 2018, the Organization received a notice of a \$1,000,000 federal award for the purpose of dental faculty loan repayment program. Qualified employees must be employed with the Organization for at least a year and their requests for loan repayment evaluated by an internal committee based on criteria approved by the Health Resources and Services Administration. When the Organization has identified qualified employees who will meet the criteria, award amounts received will be recorded as grant income. The maximum available award amount by fiscal year is as follows:

2018	\$ 100,000
2020	600,000
2021	<u>300,000</u>
	<u>\$1,000,000</u>

For the year ended June 30, 2019, the Organization has not drawn down any award amounts as the first dental employee will be eligible in December 2019. Unused amounts can be carried forward for up to two years from the original award date.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 1,276,542	\$ 1,276,542
Buildings and improvements	5,572,236	5,508,228
Furniture and equipment	1,923,931	1,525,075
Computer and software	<u>1,514,756</u>	<u>1,688,486</u>
	10,287,465	9,998,331
Less: Accumulated depreciation	<u>(4,993,707)</u>	<u>(4,384,039)</u>
	<u>\$ 5,293,758</u>	<u>\$ 5,614,292</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$609,668 and \$527,344, respectively.

5. CONSTRUCTION IN PROGRESS

For the year ended June 30, 2018, the Organization had \$30,439 of construction in progress. For the year ended June 30, 2019, an additional \$98,996 of construction in progress was incurred and \$62,760 was capitalized ending the year with \$66,675 remaining balance in construction in progress. Construction in progress consists of costs incurred for the expansion of Goleta Neighborhood Clinic, renovations to the Bridge Clinic, and building of the new Westside Neighborhood Clinic.

6. CHARITABLE REMAINDER TRUST

The Organization has been named as a residual beneficiary in a charitable remainder trust (“CRT”). The CRT was initially recorded as contribution with donor restrictions and an asset equivalent to the present value of the trust assets and estimated future income net of the present value of estimated future payouts to the income beneficiaries. The assets are recorded at approximate fair market value based upon the most recent information filed by the trust which is available to the Organization. The present value of the estimated future value of assets to be received by the Organization is calculated using the Internal Revenue Service (IRS) annuity tables and a discount rate based on the Organization’s historic risk-free rate of return currently estimated at 6%. The decrease in value of the CRT was \$26,346 and \$39,969 for the years ended June 30, 2019 and 2018, respectively.

7. LONG-TERM DEBT

In 2015, the Organization acquired a non-revolving secured line of credit to have funds available for Organization expansion and capital expenses. The rate of interest was fixed at 5.25% with monthly interest only payments until February 5, 2016. The loan was renegotiated at March 3, 2016, at an initial rate of 4.75%, interest only until October 6, 2016, at which time the line of credit converted to a note payable with fifty-nine monthly consecutive principal and interest payments based on the then current prime rate plus 1.5% as published in the Wall Street Journal, at 4.75% per annum. The interest rate will reset at February 6, 2021, and remaining principal will be due in full January 5, 2026. There was a balance of \$619,336 and \$738,554 on the note payable at June 30, 2019 and 2018, respectively.

The follow are the approximate remaining payments for long-term debt:

2020	\$ 75,969
2021	79,657
2022	83,525
2023	87,579
2024	91,831
Thereafter	<u>199,775</u>
	<u>\$ 618,336</u>

8. LINE OF CREDIT

In 2015, the Organization acquired an unsecured, revolving operating line of credit of \$300,000, with interest at the current prime rate plus 1% as published in the Wall Street Journal, but not less than 4.25%. Monthly payments of interest calculated on the outstanding balance are required. Any outstanding principal will be due in full at the maturity date of May 7, 2020. There was no balance outstanding on the line of credit as of June 30, 2019 and 2018.

9. CAPITAL LEASE

In 2016, a capital lease was created for the acquisition of dental equipment. The financing was for a total amount of \$126,455, on the equipment price of \$114,000. Sixty payments of \$2,108 are due without early repayment penalty. The balance due at June 30, 2019 and 2018 was \$40,044 and \$65,335, respectively.

The following are the remaining payments for capital lease obligations for the periods ending June 30:

2020	\$ 23,183
2021	<u>18,968</u>
	42,151
Less: interest	<u>(2,107)</u>
	<u>\$ 40,044</u>

10. NET ASSETS WITH DONOR RESTRICTIONS

Temporary restricted net assets consist of the following amounts at June 30:

	<u>2019</u>	<u>2018</u>
Charitable remainder trust	\$ 527,510	\$ 553,856
Capital campaign cash	1,052,733	-
Bariatric dental chairs	70,000	-
Purpose restricted cash	-	128,624
Time restricted receivables, net	<u>157,452</u>	<u>184,663</u>
	<u>\$ 1,807,695</u>	<u>\$ 867,143</u>

11. RETIREMENT PLAN

The Organization has adopted a 403(b) retirement plan and allows eligible employees the option to contribute a portion of their compensation to the plan. The Organization, at its discretion, may make contributions to the plan. For the years ended June 30, 2019 and 2018, employer contributions to the plan totaled \$267,488 and \$167,043, respectively.

12. CONCENTRATIONS AND RISKS

Concentrations

During the year ended June 30, 2019, 62% of the Net Patient Services Revenues were derived from the State of California Department of Health Care Services, 10% derived from the Federal Government Medicare Program, and 10% from premium revenues. 46% of the Contributions and Grants were provided by the Federal Government.

During the year ended June 30, 2018, 65% of the Net Patient Services Revenues were derived from the State of California Department of Health Care Services, 12% derived from the Federal Government Medicare Program, and 9% from premium revenues. 41% of the Contributions and Grants were provided by the Federal Government.

Credit Risk

The Organization maintains bank accounts at three financial institutions. Deposits at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization's uninsured cash balances totaled approximately \$3,480,200 at June 30, 2019.

13. OBLIGATIONS UNDER OPERATING LEASES

In June 2014, the Organization entered into a lease agreement for the Goleta Dental Clinic located at 164 Kinman Ave with annual increases of 3% to 6%, based on Consumer Price Index ("CPI"). In November 2014, the lease was amended to add a second suite. In March 2015, a second amendment was executed to add a third suite to the lease for a total of 3,074 square feet with monthly lease payments of \$7,338. In June 2019, a third amendment was executed to exercise the first option to extend the lease term. The initial lease term of the agreement is five years with options to extend the lease for two five year terms.

In November 1, 2014, the Organization entered into a lease agreement to move the Goleta Medical Clinic into a larger facility located at 5580 Calle Real. The facility is 3,913 square feet with monthly lease payments of \$8,804. The initial lease term of the agreement is five years; afterwards there are three five-year options to extend the lease.

In July 2015 the Organization began operations in its Goleta Medical Clinic which were relocated and expanded from 220 South Patterson Avenue to 5580 Calle Real in Goleta, and signed a second long-term lease to expand the Goleta Medical Clinic. The new lease will run for a term of five years commencing November 1, 2015 and calls for monthly base rent of \$8,070. It has one four-year option to extend and two five-year options when that period expires. The Goleta Medical Clinic expansion was completed in December 2017. The full clinic has been in operation since April 2018.

13. OBLIGATIONS UNDER OPERATING LEASES (Cont.)

In July 1, 2015 the Organization entered into a rental agreement with the County of Santa Barbara to lease its 3,415 square-foot location in Isla Vista, which was previously a month-to-month lease. The terms are for a monthly rent of \$5,337 for five years, with the first year's rent reduced by \$23,156. There are two five years options to extend that lease when the current period expires.

In May 29, 2018 the Organization entered into a sublease for its administrative office located at 414 Cota Street. The facility is 4,523 square feet with monthly lease payments of \$9,250 with 3% increase at each year of the term beginning on July 1, 2018 and ending on August 31, 2021.

Maturities on all of these operating leases are as follows for years ending June 30:

2020	\$ 465,635
2021	269,945
2022	125,366
2023	108,305
2024	<u>121,130</u>
	<u>\$1,090,381</u>

14. ENDOWMENT FUNDS

Interpretation of Relevant Law

The Board of Directors has interpreted the California adopted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring a future long-term investment strategy designed to preserve the fair value of future original gifts, as of the gift date. As a result of this interpretation, the Organization will classify, with the explicit designation by the donor, as permanently restricted 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. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets will be classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard for prudence prescribed by UPMIFA.

14. ENDOWMENT FUNDS (Cont.)

In accordance with California UPMIFA, the organization considers the following factors in making a determination to appropriate or invest donor-restricted endowment funds:

- (1) The duration and preservation of the funds
- (2) The purposes of the Organization and the donor-restricted endowment funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for future endowment assets that 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. Endowment assets will include those assets of donor-restricted funds that the Organization must hold in perpetuity.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization will rely on a total return strategy in investment returns which will be achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending Policy and How the Investment Objectives Relate to Spending Policy

Annual distributions shall be a maximum of 5% of the net asset value from the end of the previous twelve-quarter average. Larger distributions may be made only in emergency circumstances, as declared by two-thirds of the Organization's Board of Directors, and only after the Board has been convened to review the situation and authorize the release of requested funds.

15. CASH FLOW INFORMATION

The Organization had noncash transactions consisting of the following for the years ended June 30:

	<u>2019</u>	<u>2018</u>
In-kind donation of medical supplies	\$ 425,671	\$ 1,112,680
In-kind donation of goods	-	3,750
In-kind donation of professional services	34,968	-

16. SUBSEQUENT EVENTS

On July 9, 2019, the Organization publicly announced the commencement of a comprehensive campaign for \$20,000,000 where \$10,000,000 would be allocated for operating expenditures and \$10,000,000 for the purchase of land and expansion of existing clinics and other capital purchases. As of December 18, 2019, approximately \$6,871,000 has been received, where \$5,152,000 has been allocated for operating expenditures and \$1,514,000 restricted for the construction of the Organization's new Westside Clinic, and \$205,000 for other capital purchases.

On July 24, 2019, a \$350,000 contribution was received from an anonymous donor where the amount was restricted for the construction of the Organization's new Westside Clinic.

SUPPLEMENTARY INFORMATION

SANTA BARBARA NEIGHBORHOOD CLINICS
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor / Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Agency	Other Award Number	Direct	Pass-Through Awards	Total
<i>U.S. Department of Health and Human Services</i>						
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224		C8DCS2909701	1,973,586	-	1,973,586
<i>Total U.S. Department of Health and Human Services</i>				1,973,586	-	1,973,586
<i>U.S. Department of Housing and Urban Development</i>						
Community Development Block Grants/Entitlement Grants	14.218	City of Santa Barbara	Contract 2018-056	-	8,000	8,000
<i>Total U.S. Department of Housing and Urban Development</i>				-	8,000	8,000
<i>Total Expenditure of Federal Awards</i>				<u>\$ 1,973,586</u>	<u>\$ 8,000</u>	<u>\$ 1,981,586</u>

SANTA BARBARA NEIGHBORHOOD CLINICS
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the Federal award activity of Santa Barbara Neighborhood Clinics (the “Organization”), under programs of the federal government for the year ended June 30, 2019, in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, activities, or cash flows of the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance*, wherein certain types of expenditures are not allowed or are limited as a reimbursement. The Organization has not elected to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance.

*Such expenditures are recognized following, as applicable, either the cost principles in *OMB Circular A-122 Cost Principles for Non-Profit Organizations*, or the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*.

OTHER AUDITOR'S REPORT



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Santa Barbara Neighborhood Clinics

Report on Compliance for Each Major Federal Program

We have audited compliance of Santa Barbara Neighborhood Clinics (the "Organization") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2019. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a



major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in *internal control over compliance* with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did



not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

DAMITZ, BROOKS, NIGHTINGALE, TURNER & MORRISSET

Damitz, Brooks, Nightingale,
Turner & Morrisset
December 18, 2019

SANTA BARBARA NEIGHBORHOOD CLINICS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

SECTION 1. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	No

Identification of major programs:

CFDA Number	Program Name	
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	
	Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
	Auditee qualified as a low-risk auditee?	No

SECTION 2. FINANCIAL STATEMENT FINDINGS

None reported.

SECTION 3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

Financial Statement Findings

None reported.

Federal Awards Findings

None reported.