



**SANTA BARBARA NEIGHBORHOOD CLINICS**

INDEPENDENT AUDITOR'S REPORTS,  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

JUNE 30, 2020 AND 2019

**SANTA BARBARA NEIGHBORHOOD CLINICS**  
**TABLE OF CONTENTS**  
**June 30, 2020 and 2019**

Independent Auditor's Report.....	1-3
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.....	4-5
Statements of Financial Position.....	6
Statements of Activities.....	7
Statements of Functional Expenses.....	8
Statements of Cash Flows.....	9
Notes to Financial Statements.....	10-23
<b>Supplementary Information:</b>	
Schedule of Expenditures of Federal Awards.....	25
Notes to the Schedule of Expenditures of Federal Awards.....	26
<b>Other Auditor's Report:</b>	
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.....	28-30
Schedule of Findings and Questioned Costs.....	31-32

*D*AMITZ

*B*ROOKS

*N*IGHTINGALE

*T*URNER

*M*ORRISSET



## 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, 2020 and 2019, 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 to financial statement audits contained in *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, 2020 and 2019, 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.

### **Uncertainties**

As discussed in Note 12 to the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to that matter.

### **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 schedule of expenditures of federal awards 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 16, 2020, 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 16, 2020  
Santa Barbara, California



**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, 2020, 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 16, 2020.

**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 16, 2020  
Santa Barbara, California

**SANTA BARBARA NEIGHBORHOOD CLINICS**  
**Statements of Financial Position**  
June 30, 2020 and 2019

<i>Assets</i>	Without Donor Restrictions	With Donor Restrictions	<b>2020</b>	Without Donor Restrictions	With Donor Restrictions	<b>2019</b>
<b>Current Assets</b>						
Cash and cash equivalents	\$ 4,507,077	\$ 171,123	\$ 4,678,200	\$ 2,688,353	\$ 1,122,733	\$ 3,811,086
Accounts and pledges receivable, net	3,610,614	85,000	3,695,614	3,529,065	30,000	3,559,065
Prepaid expenses and deposits	90,367	-	90,367	66,419	-	66,419
Inventory, net	95,962	-	95,962	133,396	-	133,396
<b>Total current assets</b>	<b>8,304,020</b>	<b>256,123</b>	<b>8,560,143</b>	<b>6,417,233</b>	<b>1,152,733</b>	<b>7,569,966</b>
<b>Other Assets</b>						
Accounts and pledge receivable, net	-	584,859	584,859	-	127,452	127,452
Present value of future receivable on charitable remainder trust	-	461,412	461,412	-	527,510	527,510
Assets held in trust	-	-	-	20,462	-	20,462
Construction in progress	-	1,649,226	1,649,226	66,675	-	66,675
Property and equipment, net	5,059,476	-	5,059,476	5,293,758	-	5,293,758
<b>Total other assets</b>	<b>5,059,476</b>	<b>2,695,497</b>	<b>7,754,973</b>	<b>5,380,895</b>	<b>654,962</b>	<b>6,035,857</b>
<b>Total assets</b>	<b>\$ 13,363,496</b>	<b>\$ 2,951,620</b>	<b>\$ 16,315,116</b>	<b>\$ 11,798,128</b>	<b>\$ 1,807,695</b>	<b>\$ 13,605,823</b>
<b>Liabilities and Net Assets</b>						
<b>Current Liabilities</b>						
Accounts payable	\$ 1,171,272	\$ -	\$ 1,171,272	\$ 1,388,575	\$ -	\$ 1,388,575
Accrued liabilities	1,310,875	-	1,310,875	1,089,777	-	1,089,777
Deferred revenue	50,000	-	50,000	50,000	-	50,000
Liabilities held in trust	67,409	-	67,409	-	-	-
Current portion of long-term debt	79,657	-	79,657	75,969	-	75,969
Paycheck Protection Program loan	2,015,072	-	2,015,072	-	-	-
Current portion of capital lease	16,861	-	16,861	23,183	-	23,183
<b>Total current liabilities</b>	<b>4,711,146</b>	<b>-</b>	<b>4,711,146</b>	<b>2,627,504</b>	<b>-</b>	<b>2,627,504</b>
<b>Other Liabilities</b>						
Long-term debt	463,199	-	463,199	542,367	-	542,367
Capital lease	-	-	-	16,861	-	16,861
<b>Total other liabilities</b>	<b>463,199</b>	<b>-</b>	<b>463,199</b>	<b>559,228</b>	<b>-</b>	<b>559,228</b>
<b>Total liabilities</b>	<b>5,174,345</b>	<b>-</b>	<b>5,174,345</b>	<b>3,186,732</b>	<b>-</b>	<b>3,186,732</b>
<b>Net Assets</b>						
Without donor restrictions	8,189,151	-	8,189,151	8,611,396	-	8,611,396
With donor restrictions	-	2,951,620	2,951,620	-	1,807,695	1,807,695
<b>Total net assets</b>	<b>8,189,151</b>	<b>2,951,620</b>	<b>11,140,771</b>	<b>8,611,396</b>	<b>1,807,695</b>	<b>10,419,091</b>
	<b>\$ 13,363,496</b>	<b>\$ 2,951,620</b>	<b>\$ 16,315,116</b>	<b>\$ 11,798,128</b>	<b>\$ 1,807,695</b>	<b>\$ 13,605,823</b>

**SANTA BARBARA NEIGHBORHOOD CLINICS**

**Statements of Activities**

Years Ended June 30, 2020 and 2019

	Without Donor Restrictions	With Donor Restrictions	<b>2020</b>	Without Donor Restrictions	With Donor Restrictions	<b>2019</b>
<b><i>Public Support and Revenue</i></b>						
<b><i>Public Support</i></b>						
Contributions	\$ 3,567,019	\$ 1,439,582	\$ 5,006,601	\$ 2,697,849	\$ 994,109	\$ 3,691,958
In-kind contributions	784,214	-	784,214	460,639	-	460,639
Net assets released from restrictions	229,559	(229,559)	-	27,211	(27,211)	-
<b><i>Total public support</i></b>	<b>4,580,792</b>	<b>1,210,023</b>	<b>5,790,815</b>	<b>3,185,699</b>	<b>966,898</b>	<b>4,152,597</b>
<b><i>Revenue</i></b>						
Program service fees	11,130,753	-	11,130,753	12,834,359	-	12,834,359
Grant revenue	3,301,755	-	3,301,755	2,153,086	-	2,153,086
Interest income	3,544	-	3,544	1,208	-	1,208
Change in value of charitable remainder trust	-	(66,098)	(66,098)	-	(26,346)	(26,346)
Other income	49,597	-	49,597	7,116	-	7,116
<b><i>Total revenue</i></b>	<b>14,485,649</b>	<b>(66,098)</b>	<b>14,419,551</b>	<b>14,995,769</b>	<b>(26,346)</b>	<b>14,969,423</b>
<b><i>Total public support and revenue</i></b>	<b>19,066,441</b>	<b>1,143,925</b>	<b>20,210,366</b>	<b>18,181,468</b>	<b>940,552</b>	<b>19,122,020</b>
<b><i>Expenses</i></b>						
Program services	15,730,726	-	15,730,726	15,037,769	-	15,037,769
Management and general	3,398,191	-	3,398,191	2,525,713	-	2,525,713
Fundraising	359,769	-	359,769	404,491	-	404,491
<b><i>Total expenses</i></b>	<b>19,488,686</b>	<b>-</b>	<b>19,488,686</b>	<b>17,967,973</b>	<b>-</b>	<b>17,967,973</b>
<b><i>Increase (decrease) in net assets</i></b>	<b>(422,245)</b>	<b>1,143,925</b>	<b>721,680</b>	<b>213,495</b>	<b>940,552</b>	<b>1,154,047</b>
<b><i>Net assets, beginning of year</i></b>	<b>8,611,396</b>	<b>1,807,695</b>	<b>10,419,091</b>	<b>8,397,901</b>	<b>867,143</b>	<b>9,265,044</b>
<b><i>Net assets, end of year</i></b>	<b>\$ 8,189,151</b>	<b>\$ 2,951,620</b>	<b>\$ 11,140,771</b>	<b>\$ 8,611,396</b>	<b>\$ 1,807,695</b>	<b>\$ 10,419,091</b>

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

**SANTA BARBARA NEIGHBORHOOD CLINICS**  
**Statements of Functional Expenses**  
Years Ended June 30, 2020 and 2019

	Program Services	Supporting Services		2020	Program Services	Supporting Services		2019
		Management and General	Fundraising			Management and General	Fundraising	
Salaries	\$ 8,278,181	\$ 1,783,723	\$ 141,693	\$ 10,203,597	\$ 8,352,621	\$ 1,190,021	\$ 112,789	\$ 9,655,431
Payroll taxes	586,734	158,970	10,002	755,706	602,823	76,615	8,496	687,934
Employee benefits	1,039,228	458,366	9,730	1,507,324	818,598	382,241	8,443	1,209,282
Total salaries and benefits	9,904,143	2,401,059	161,425	12,466,627	9,774,042	1,648,877	129,728	11,552,647
Consulting services	63,453	97,294	55,884	216,631	56,853	66,293	140,520	263,666
Contract labor	1,290,035	201,003	-	1,491,038	966,596	229,337	-	1,195,933
Professional development	214,710	163,901	4,810	383,421	163,819	117,103	19,065	299,987
Equipment leases	495	1,480	-	1,975	609	3,492	-	4,101
Information technology	486,063	113,358	600	600,021	423,407	83,069	233	506,709
Insurance	74,925	-	-	74,925	92,981	-	-	92,981
Interest	-	30,012	-	30,012	-	33,482	-	33,482
Occupancy	259,370	25,193	-	284,563	291,570	23,452	-	315,022
Operating expenses	202,454	58,810	127,381	388,645	143,887	35,797	43,325	223,009
Outside services	31,854	107,558	375	139,787	89,555	138,954	10,254	238,763
Labor relations	839	-	-	839	1,718	-	-	1,718
Printing and postage	70,018	36,255	8,555	114,828	77,815	20,132	61,135	159,082
Rent	580,465	-	-	580,465	488,144	-	-	488,144
Supplies	2,116,475	114,330	739	2,231,544	1,805,256	103,562	231	1,909,049
Telephone	62,448	28,909	-	91,357	69,761	4,251	-	74,012
Depreciation	372,979	19,029	-	392,008	591,756	17,912	-	609,668
	<u>\$ 15,730,726</u>	<u>\$ 3,398,191</u>	<u>\$ 359,769</u>	<u>\$ 19,488,686</u>	<u>\$ 15,037,769</u>	<u>\$ 2,525,713</u>	<u>\$ 404,491</u>	<u>\$ 17,967,973</u>

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

**SANTA BARBARA NEIGHBORHOOD CLINICS**

**Statements of Cash Flows**

Years Ended June 30, 2020 and 2019

	<b>2020</b>	<b>2019</b>
<b><i>Cash flows from operating activities</i></b>		
Cash received from service revenues, net	\$ 13,768,240	\$ 12,763,390
Cash received from contributions without donor restrictions	4,351,233	3,132,142
Cash received from contributions with donor restrictions	528,284	81,738
Interest income	3,544	1,208
Cash paid for salaries and related expenses	(12,245,529)	(11,522,860)
Cash paid for other operating costs	(6,083,669)	(4,908,843)
Interest paid	(30,012)	(33,482)
<b><i>Net cash provided (used) by operating activities</i></b>	292,091	(486,707)
<b><i>Cash flows from investing activities</i></b>		
Purchase of property and equipment and increase in construction in progress	(1,740,277)	(325,370)
<b><i>Net cash used by investing activities</i></b>	(1,740,277)	(325,370)
<b><i>Cash flows from financing activities</i></b>		
Cash received from contributions restricted for capital expenditures	398,891	994,109
Paycheck Protection Program loan	2,015,072	-
Payments on long-term debt	(75,480)	(120,218)
Payments on capital lease	(23,183)	(25,291)
<b><i>Net cash provided by financing activities</i></b>	2,315,300	848,600
Net increase in cash and cash equivalents	867,114	36,523
<b><i>Cash and cash equivalents, beginning of year</i></b>	3,811,086	3,774,563
<b><i>Cash and cash equivalents, end of year</i></b>	\$ 4,678,200	\$ 3,811,086
Reconciliation of increase in net assets to net cash provided by operating activities		
Increase in net assets	\$ 721,680	\$ 1,154,047
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	392,008	609,668
Change in value of charitable remainder trust	66,098	26,346
Capital contributions for construction of Westside Clinic	(398,891)	(994,109)
(Increase) decrease in:		
Accounts and pledge receivable	(593,956)	(1,576,503)
Prepaid expenses and deposits	(23,948)	(14,985)
Inventory	37,434	(4,814)
Assets held in trust	87,871	(20,462)
Increase (decrease) in:		
Accounts payable	(217,303)	437,662
Accrued liabilities	221,098	29,787
Cash overdraft	-	(133,344)
<b><i>Net cash provided (used) by operating activities</i></b>	\$ 292,091	\$ (486,707)

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

**SANTA BARBARA NEIGHBORHOOD CLINICS**  
**Notes to Financial Statements**  
June 30, 2020 and 2019

**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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

### *Nature of Activities (Cont.)*

During 2017 the Organization commenced 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. On July 9, 2019, the Organization publicly announced the campaign. As of June 30, 2020, approximately \$9,823,600 has been received, where \$7,785,600 has been allocated for operating expenditures and \$1,708,000 restricted for the construction of the Organization's new Westside Clinic, and \$330,000 for other capital purchases.

### *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:

*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. Net assets without donor restrictions generally result from contributions without donor restrictions, program service revenue, and fundraising less operating 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, 2020 and 2019 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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

### *Revenue Recognition (Cont.)*

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 to 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.

### *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, 2020 and 2019, based on management's analysis historical receivable collections, management has established a provision for contractual allowances and bad debt. 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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

### *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.

### *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 2017 to the present remain subject to examination by the IRS for federal tax purposes, and the tax years from 2016 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, 2020 and 2019 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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

### *Subsequent Events*

Management has evaluated subsequent events through December 16, 2020, the date that the financial statements were available to be issued. Refer to Note 17 for subsequent events.

## 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, 2020:

Cash and cash equivalents	\$ 4,507,077
Accounts and pledges receivable, net	<u>3,610,614</u>
	<u>\$ 8,117,691</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, 2021.

## 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>2020</u>	<u>2019</u>
Patient fees and insurance	\$ 3,948,046	\$ 3,981,961
CenCal Incentive	348,548	280,568
County and City of Santa Barbara	-	2,000
Grants receivable - HRSA	574,657	962
Medicare and other	270,441	26,380
Medi-Cal reconciliation settlement	573,375	1,077,059
Medicare reconciliation settlement	-	220,692
Pledge receivable	<u>85,000</u>	<u>30,000</u>
	5,800,067	5,619,622
Less: provision for contractual allowances and bad debt	<u>(2,104,453)</u>	<u>(2,060,557)</u>
	<u>\$ 3,695,614</u>	<u>\$ 3,559,065</u>

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

	<u>2020</u>	<u>2019</u>
Pledge receivable	\$ 590,000	\$ 180,000
Less: discount on long-term pledge receivable	<u>(5,141)</u>	<u>(52,548)</u>
	<u>\$ 584,859</u>	<u>\$ 127,452</u>

Pledges receivable as of June 30, 2020 are expected to be received as follows:

2021	\$ 85,000
2022	140,000
2023	140,000
2024	140,000
2025	140,000
Thereafter	<u>30,000</u>
	675,000
Less: discount on long-term pledge receivable	<u>(5,141)</u>
	<u>\$ 669,859</u>

Pledges receivable due after one year are recorded at the present value of estimated future cash flows using the daily treasury yield curve rates. The present value discount is amortized to contribution revenue over the terms of the pledges receivable.

#### 4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Land	\$ 1,276,542	\$ 1,276,542
Buildings and improvements	5,590,948	5,572,236
Furniture and equipment	2,613,276	2,503,193
Computer and software	<u>964,424</u>	<u>935,494</u>
	10,445,190	10,287,465
Less: Accumulated depreciation	<u>(5,385,714)</u>	<u>(4,993,707)</u>
	<u>\$ 5,059,479</u>	<u>\$ 5,293,758</u>

Depreciation expense for the years ended June 30, 2020 and 2019 was approximately \$392,000 and \$609,700, respectively.

#### 5. CONSTRUCTION IN PROGRESS

For the year ended June 30, 2020, approximately \$1,633,000 of construction in progress was incurred and approximately \$50,400 was capitalized as assets were put into place with approximately \$1,649,200 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 \$66,098 and \$26,346 for the years ended June 30, 2020 and 2019, respectively.

## 7. LONG-TERM DEBT

On October 6, 2016, the Organization converted the line of credit 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 \$542,856 and \$618,336 on the note payable at June 30, 2020 and 2019, respectively.

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

2021	\$ 79,700
2022	83,500
2023	87,600
2024	91,800
2025	96,300
Thereafter	<u>103,956</u>
	<u>\$ 542,856</u>

## 8. LINE OF CREDIT

The Organization maintains 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. In June 2020, the terms of the loan were amended and any outstanding principal will be due in full at the new maturity date of September 30, 2021. There was no balance outstanding on the line of credit as of June 30, 2020 and 2019.

## 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, 2020 and 2019 was \$16,861 and \$40,044, respectively.

The remaining payment for capital lease obligations for the year ending June 30, 2021 is \$16,968.

## 10. CONDITIONAL GRANTS

### *Paycheck Protection Program Loan*

In April 2020, the Organization received a loan of approximately \$2,015,000 under the Small Business Administration Paycheck Protection Program. Loans received under this program are eligible for forgiveness as documented in the regulations. As of June 30, 2020, the Organization has not recognized loan forgiveness in the statement of activities.

The Organization expects to meet the forgiveness criteria for the loan of approximately \$2,015,000, within the 24 week period from receipt of the loan as allowed by the regulations. Any amounts not forgiven will have an annual interest rate of 1% and principal and interest will be due two years from the receipt of the loan. Until the Organization meets the conditions, the \$2,015,000 is recorded as a loan in the statement of financial position.

### *Charitable Remainder Trust*

In September 2019, the Organization was notified that it had been named as a beneficiary of a charitable remainder trust with an estimated value of approximately \$2,000,000 to \$3,000,000. Due to certain contingencies related to the gift, the Organization will not recognize the gift in the financial statements until it is received.

### *Santa Barbara Cottage Hospital Grant*

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. As of June 30, 2020, the Organization has received \$500,000 and is eligible to receive \$2,000,000 in general operating support and \$2,500,000 in capital support in future periods if the criteria specified by the grantor is met.

### *Federal Dental Faculty Loan Repayment Program*

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.

## 10. CONDITIONAL GRANTS (Cont.)

### *Federal Dental Faculty Loan Repayment Program (Cont.)*

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>

As of June 30, 2020, the Organization has received approximately \$74,200 of funding and is eligible to receive approximately \$925,800 in future periods. The first dental employee was eligible in December 2019. Unused amounts can be carried forward for up to two years from the original award date.

## 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, 2020 and 2019, employer contributions to the plan totaled approximately \$238,000 and \$267,500, respectively.

## 12. CONCENTRATIONS, RISKS AND UNCERTAINTIES

### *Concentrations*

During the year ended June 30, 2020, 63% of the Net Patient Services Revenues were derived from the State of California Department of Health Care Services, 11% derived from the Federal Government Medicare Program, and 11% from premium revenues. 31% of the Contributions and Grants were provided by the Federal Government.

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.

### *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 \$4,098,000 at June 30, 2020.

## **12. CONCENTRATIONS, RISKS AND UNCERTAINTIES (Cont.)**

### *Uncertainties*

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The COVID-19 pandemic and resulting global disruptions have caused significant economic uncertainty and volatility in financial markets. The impact of COVID-19 continues to evolve rapidly and the Organization is not able at this time to estimate its full impact on the financial statements.

## **13. OBLIGATIONS UNDER OPERATING LEASES**

On 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. In June 2019, a third amendment was executed to exercise the first option to extend the lease term with monthly lease payments of \$8,260. The initial lease term of the agreement is five years with options to extend the lease for two five year terms. The Organization exercised the first option to extend the lease until 2024.

On 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. The Organization exercised the first option to extend the lease until 2024.

On 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.

On 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.

On 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.

### 13. OBLIGATIONS UNDER OPERATING LEASES (Cont.)

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

2021	\$ 475,400
2022	340,600
2023	325,600
2024	330,900
2025	<u>162,200</u>
	<u>\$ 1,634,700</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.

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.

#### 14. ENDOWMENT FUNDS (Cont.)

##### *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*

Once endowment contributions are received and invested, 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. NET ASSETS WITH DONOR RESTRICTIONS

Donor restricted net assets were restricted to expenditure for specified purposes including pledges and grants are as follows at June 30:

	<u>2020</u>	<u>2019</u>
Construction in progress	\$ 1,649,226	\$ -
Charitable remainder trust	461,412	527,510
Capital campaign	72,714	1,052,733
Bariatric dental chairs	120	70,000
Unexpended grants	98,289	-
Time restricted receivables, net	<u>669,859</u>	<u>157,452</u>
Total funds restricted to expenditure for specified purposes	<u>\$ 2,951,620</u>	<u>\$ 1,807,695</u>

#### 16. CASH FLOW INFORMATION

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

	<u>2020</u>	<u>2019</u>
In-kind donation of medical supplies	\$ 715,145	\$ 425,671
In-kind donation of professional services	22,348	34,968
In-kind donation of rent	32,432	-
Miscellaneous in-kind contribution	14,289	-

## **17. SUBSEQUENT EVENT**

On September 2, 2020, the Organization was awarded with a \$1,000,000 grant from the federal government for the Westside Neighborhood Clinic Expansion Site. The budget period for the Capital Assistance for Disaster Response and Recovery Efforts is from September 1, 2020 through August 31, 2023.

**SUPPLEMENTARY INFORMATION**

**SANTA BARBARA NEIGHBORHOOD CLINICS**  
**Schedule of Expenditures of Federal Awards**  
Year Ended June 30, 2020

Federal Grantor / Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Agency	Other Award Number	Direct	Pass-Through Awards	<b>Total</b>
<b><i>U.S. Department of Health and Human Services</i></b>						
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224		C8DCS2909701	\$ 2,707,498	\$ -	\$ 2,707,498
COVID-19 Coronavirus Supplemental Funding for Health Centers	93.224		H8CCS34209	76,142	-	76,142
Dental Faculty Loan Repayment Grant	93.059		D87HP32141	74,224	-	74,224
Title X Family Planning Program	93.217	Essential Access Health	1 FPHA006470-01	-	125,000	125,000
Title X Family Planning Program	93.217	Essential Access Health	5 FPHA006470-02	-	88,529	88,529
<b><i>Total U.S. Department of Health and Human Services</i></b>				<u>2,857,864</u>	<u>213,529</u>	<u>3,071,393</u>
<b><i>U.S. Department of Housing and Urban Development</i></b>						
Community Development Block Grants/Entitlement Grants	14.218	City of Santa Barbara	Contract 2018-056	-	7,734	7,734
<b><i>Total U.S. Department of Housing and Urban Development</i></b>				<u>-</u>	<u>7,734</u>	<u>7,734</u>
<b><i>Total Expenditure of Federal Awards</i></b>				<u>\$ 2,857,864</u>	<u>\$ 221,263</u>	<u>\$ 3,079,127</u>

**SANTA BARBARA NEIGHBORHOOD CLINICS**  
**Notes to Schedule of Expenditures of Federal Awards**  
Year Ended June 30, 2020

**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, 2020, 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, 2020. 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, 2020.

### **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 16, 2020  
Santa Barbara, California

**SANTA BARBARA NEIGHBORHOOD CLINICS**  
**Schedule of Findings and Questioned Costs**  
For the Year Ended June 30, 2020

**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.