

SANTA BARBARA NEIGHBORHOOD CLINICS

INDEPENDENT AUDITOR'S REPORTS,
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2021 AND 2020

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 statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements. The financial statements of the Santa Barbara Neighborhood Clinics as of and for the year ended June 30, 2020, were audited by Damitz, Brooks, Nightingale Turner & Morrisset. Effective January 1, 2022, Damitz, Brooks, Nightingale, Turner & Morrisset merged with Hutchinson and Bloodgood, LLP. Damitz, Brooks, Nightingale, Turner & Morrisset's report dated, December 16, 2020, expressed an unqualified opinion on those 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, 2021, and the changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Uncertainties

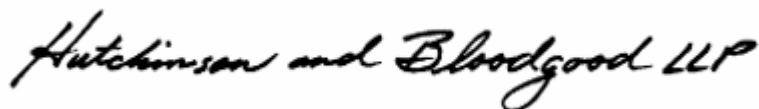
As discussed in Note 12 to the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot 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 January 26, 2022, 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.



Hutchinson & Bloodgood LLP
January 26, 2022
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, 2021, 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 January 26, 2022.

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.

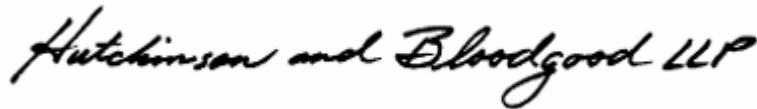
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

A handwritten signature in black ink that reads "Hutchinson and Bloodgood LLP". The signature is written in a cursive, flowing style.

Hutchinson & Bloodgood LLP
January 26, 2022
Santa Barbara, California

SANTA BARBARA NEIGHBORHOOD CLINICS
Statements of Financial Position
June 30, 2021 and 2020

<i>Assets</i>	Without Donor Restrictions	With Donor Restrictions	2021	Without Donor Restrictions	With Donor Restrictions	2020
Current Assets						
Cash and cash equivalents	\$ 5,946,407	\$ 1,421,380	\$ 7,367,787	\$ 4,507,077	\$ 171,123	\$ 4,678,200
Accounts receivable, net	3,203,960	-	3,203,960	3,610,614	-	3,610,614
Pledges receivable, net	-	210,000	210,000	-	85,000	85,000
Prepaid expenses and deposits	94,106	-	94,106	90,367	-	90,367
Other assets	58,359	-	58,359	-	-	-
Inventory, net	85,283	-	85,283	95,962	-	95,962
Total current assets	9,388,115	1,631,380	11,019,495	8,304,020	256,123	8,560,143
Other Assets						
Pledges receivable, net	-	570,897	570,897	-	584,859	584,859
Present value of future receivable on charitable remainder trust	-	577,908	577,908	-	461,412	461,412
Construction in progress	-	1,799,573	1,799,573	-	1,649,226	1,649,226
Property and equipment, net	4,749,317	-	4,749,317	5,059,476	-	5,059,476
Total other assets	4,749,317	2,948,378	7,697,695	5,059,476	2,695,497	7,754,973
Total assets	\$ 14,137,432	\$ 4,579,758	\$ 18,717,190	\$ 13,363,496	\$ 2,951,620	\$ 16,315,116
Liabilities and Net Assets						
Current Liabilities						
Accounts payable	\$ 1,406,893	\$ -	\$ 1,406,893	\$ 1,171,272	\$ -	\$ 1,171,272
Accrued liabilities	1,512,367	-	1,512,367	1,310,875	-	1,310,875
Deferred revenue	-	-	-	50,000	-	50,000
Current portion of long-term debt	17,000	-	17,000	79,657	-	79,657
Paycheck Protection Program loan	-	-	-	2,015,072	-	2,015,072
Other liabilities	-	-	-	67,409	-	67,409
Current portion of capital lease	-	-	-	16,861	-	16,861
Total current liabilities	2,936,260	-	2,936,260	4,711,146	-	4,711,146
Other Liabilities						
Long-term debt	474,953	-	474,953	463,199	-	463,199
Total other liabilities	474,953	-	474,953	463,199	-	463,199
Total liabilities	3,411,213	-	3,411,213	5,174,345	-	5,174,345
Net Assets						
Without donor restrictions	10,726,219	-	10,726,219	8,189,151	-	8,189,151
With donor restrictions	-	4,579,758	4,579,758	-	2,951,620	2,951,620
Total net assets	10,726,219	4,579,758	15,305,977	8,189,151	2,951,620	11,140,771
	\$ 14,137,432	\$ 4,579,758	\$ 18,717,190	\$ 13,363,496	\$ 2,951,620	\$ 16,315,116

SANTA BARBARA NEIGHBORHOOD CLINICS

Statements of Activities

Years Ended June 30, 2021 and 2020

	Without Donor Restrictions	With Donor Restrictions	2021	Without Donor Restrictions	With Donor Restrictions	2020
<i>Public Support and Revenue</i>						
<i>Public Support</i>						
Contributions	\$ 4,730,903	\$ 1,769,666	\$ 6,500,569	\$ 3,567,019	\$ 1,439,582	\$ 5,006,601
In-kind contributions	724,032	-	724,032	784,214	-	784,214
Paycheck Protection Program loan forgiveness	2,015,073	-	2,015,073	-	-	-
Net assets released from restrictions	258,023	(258,023)	-	229,559	(229,559)	-
<i>Total public support</i>	7,728,031	1,511,643	9,239,674	4,580,792	1,210,023	5,790,815
<i>Revenue</i>						
Program service fees	10,407,517	-	10,407,517	11,130,753	-	11,130,753
Grant revenue	3,639,984	-	3,639,984	3,301,755	-	3,301,755
Interest income	3,520	-	3,520	3,544	-	3,544
Change in value of charitable remainder trust	-	116,495	116,495	-	(66,098)	(66,098)
Other income	86,804	-	86,804	49,597	-	49,597
<i>Total revenue</i>	14,137,825	116,495	14,254,320	14,485,649	(66,098)	14,419,551
<i>Total public support and revenue</i>	21,865,856	1,628,138	23,493,994	19,066,441	1,143,925	20,210,366
<i>Expenses</i>						
Program services	15,257,397	-	15,257,397	15,730,726	-	15,730,726
Management and general	3,783,944	-	3,783,944	3,398,191	-	3,398,191
Fundraising	287,447	-	287,447	359,769	-	359,769
<i>Total expenses</i>	19,328,788	-	19,328,788	19,488,686	-	19,488,686
<i>Increase (decrease) in net assets</i>	2,537,068	1,628,138	4,165,206	(422,245)	1,143,925	721,680
<i>Net assets, beginning of year</i>	8,189,151	2,951,620	11,140,771	8,611,396	1,807,695	10,419,091
<i>Net assets, end of year</i>	\$ 10,726,219	\$ 4,579,758	\$ 15,305,977	\$ 8,189,151	\$ 2,951,620	\$ 11,140,771

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

SANTA BARBARA NEIGHBORHOOD CLINICS
Statements of Functional Expenses
Years Ended June 30, 2021 and 2020

	Program Services	Supporting Services		2021	Program Services	Supporting Services		2020
		Management and General	Fundraising			Management and General	Fundraising	
Salaries	\$ 8,544,162	\$ 1,813,577	\$ 156,705	\$ 10,514,444	\$ 8,278,181	\$ 1,783,723	\$ 141,693	\$ 10,203,597
Payroll taxes	591,004	127,535	11,820	730,359	586,734	158,970	10,002	755,706
Employee benefits	1,030,174	453,188	12,830	1,496,192	1,039,228	458,366	9,730	1,507,324
Total salaries and benefits	10,165,340	2,394,300	181,355	12,740,995	9,904,143	2,401,059	161,425	12,466,627
Consulting services	41,050	125,432	20,000	186,482	64,292	97,294	55,884	217,470
Contract labor	589,443	468,331	2,815	1,060,589	1,290,035	201,003	-	1,491,038
Depreciation	425,601	28,624	-	454,225	372,979	19,029	-	392,008
Equipment leases	98	4,009	-	4,107	495	1,480	-	1,975
Information technology	502,695	181,547	115	684,357	486,063	113,358	600	600,021
Interest	-	50,620	-	50,620	-	30,012	-	30,012
Occupancy	272,032	19,399	-	291,431	259,370	25,193	-	284,563
Operating expenses	235,882	61,882	30,263	328,027	202,454	45,433	127,381	375,268
Outside services	22,444	113,334	22,633	158,411	31,854	107,558	375	139,787
Printing and postage	68,995	39,369	25,252	133,616	70,018	36,255	8,555	114,828
Professional development	223,617	148,837	1,284	373,738	214,710	163,901	4,810	383,421
Professional liability insurance	56,260	-	-	56,260	74,925	-	-	74,925
Rent	599,560	114,330	-	713,890	580,465	114,330	-	694,795
Supplies	1,989,159	14,310	3,730	2,007,199	2,116,475	13,377	739	2,130,591
Telephone	65,221	19,620	-	84,841	62,448	28,909	-	91,357
	<u>\$ 15,257,397</u>	<u>\$ 3,783,944</u>	<u>\$ 287,447</u>	<u>\$ 19,328,788</u>	<u>\$ 15,730,726</u>	<u>\$ 3,398,191</u>	<u>\$ 359,769</u>	<u>\$ 19,488,686</u>

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

SANTA BARBARA NEIGHBORHOOD CLINICS

Statements of Cash Flows

Years Ended June 30, 2021 and 2020

	2021	2020
<i>Cash flows from operating activities</i>		
Cash received from service revenues, net	\$ 14,396,323	\$ 13,768,240
Cash received from contributions without donor restrictions	4,730,903	4,351,233
Cash received from contributions with donor restrictions	500,166	528,284
Interest income	3,520	3,544
Cash paid for salaries and related expenses	(12,539,503)	(12,245,529)
Cash paid for other operating costs	(5,288,384)	(6,083,669)
Interest paid	(50,620)	(30,012)
	1,752,405	292,091
<i>Net cash provided by operating activities</i>		
<i>Cash flows from investing activities</i>		
Purchase of property and equipment and increase in construction in progress	(294,413)	(1,740,277)
	(294,413)	(1,740,277)
<i>Net cash used by investing activities</i>		
<i>Cash flows from financing activities</i>		
Cash received from contributions restricted for capital expenditures	1,299,359	398,891
Paycheck Protection Program loan	-	2,015,072
Payments on long-term debt	(67,764)	(75,480)
Payments on capital lease	-	(23,183)
	1,231,595	2,315,300
<i>Net cash provided by financing activities</i>		
Net increase in cash and cash equivalents	2,689,587	867,114
<i>Cash and cash equivalents, beginning of year</i>	4,678,200	3,811,086
<i>Cash and cash equivalents, end of year</i>	\$ 7,367,787	\$ 4,678,200
Reconciliation of increase in net assets to net cash provided by operating activities		
Increase in net assets	\$ 4,165,206	\$ 721,680
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	454,225	392,008
Change in value of charitable remainder trust	(116,495)	66,098
Change in provision for contractual allowances and bad debt	43,743	43,896
Capital contributions for construction of Westside Clinic	(1,299,359)	(398,891)
Paycheck Protection Program loan forgiveness	(2,015,073)	-
(Increase) decrease in:		
Accounts receivable	362,911	(125,445)
Pledges receivable	(111,038)	(512,407)
Prepaid expenses and deposits	(3,739)	(23,948)
Inventory	10,679	37,434
Other assets	(58,359)	-
Increase (decrease) in:		
Accounts payable	235,621	(217,303)
Accrued liabilities	201,492	221,098
Deferred revenue	(50,000)	-
Other liabilities	(67,409)	87,871
	\$ 1,752,405	\$ 292,091
<i>Net cash provided by operating activities</i>		

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

SANTA BARBARA NEIGHBORHOOD CLINICS
Notes to Financial Statements
June 30, 2021 and 2020

1. DESCRIPTION OF ACTIVITIES & 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. DESCRIPTION OF ACTIVITIES & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Nature of Activities (Cont.)

During 2017 the Organization approved a comprehensive campaign for \$20,000,000 where \$10,000,000 would be 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, 2021, approximately \$16,120,500 has been collected with \$4,207,100 restricted for the construction of the Organization's new Westside Clinic, and \$375,000 restricted 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, 2021 and 2020 there were no donor restricted funds that were permanent in nature.

Contributions received with donor restrictions that are met in the year of receipt are recorded as contributions without donor restrictions and as increases in net assets without donor restrictions. When a restriction expires or is met in a subsequent year, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Cash and Cash Equivalents

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. DESCRIPTION OF ACTIVITIES & 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 that are not met in the year of the receipt 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. These contributions, despite their considerable value to the mission of the Organization, are not reflected in the financial statements as they do not meet the criteria required by GAAP for recognition as contributed public support. 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, 2021 and 2020, 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 or self-pay) and measures historical collection rates to calculate an allowance based on outstanding receivables in each classification. The Organization does not require collateral from its funding agencies.

1. DESCRIPTION OF ACTIVITIES & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Promises to Give

Unconditional promises to give are recognized as pledges receivable and contributions in the period the promise is received. In accordance with GAAP, conditional promises to give are recognized only when the donor-imposed conditions have been substantially met.

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. The reserve for inventory obsolescence is based upon management's assessment of inventory. The inventory reserve was approximately \$6,200 as of June 30, 2021 and 2020.

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 2018 to the present remain subject to examination by the IRS for federal tax purposes, and the tax years from 2017 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, 2021 and 2020 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	20-40
Furniture, computers, and equipment	3-10

1. DESCRIPTION OF ACTIVITIES & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

Subsequent Events

Management has evaluated subsequent events through January 26, 2022, the date that the financial statements were available to be issued. Refer to Note 16.

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, 2021:

Cash and cash equivalents	\$ 5,946,407
Accounts and pledges receivable, net	<u>3,413,960</u>
	<u>\$ 9,360,367</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, 2022.

3. ACCOUNTS AND PLEDGES 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. A provision for contractual allowances and bad debts based on historical collection rates has been recorded.

The pledges receivable represents future payments from a trust and various foundations who have made unconditional promises to give to the Organization. The pledges receivable have 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. As of June 30, 2021, approximately \$362,100 is outstanding from Medi-Cal relating to this settlement.

3. ACCOUNTS AND PLEDGES RECEIVABLE (Cont.)

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

	<u>2021</u>	<u>2020</u>
Patient fees and insurance	\$ 3,732,232	\$ 3,948,046
CenCal Incentive	398,600	348,548
Grants receivable - HRSA	670,152	574,657
Other receivables	189,108	270,441
Medi-Cal reconciliation settlement	362,064	573,375
Pledges receivable	<u>210,000</u>	<u>85,000</u>
	5,562,156	5,800,067
Less: provision for contractual allowances and bad debt	<u>(2,148,196)</u>	<u>(2,104,453)</u>
	<u>\$ 3,413,960</u>	<u>\$ 3,695,614</u>

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

	<u>2021</u>	<u>2020</u>
Pledges receivable	\$ 580,000	\$ 590,000
Less: discount on long-term pledge receivable	<u>(9,103)</u>	<u>(5,141)</u>
	<u>\$ 570,897</u>	<u>\$ 584,859</u>

Pledges receivable as of June 30, 2021 are expected to be received as follows:

2022	\$ 210,000
2023	200,000
2024	200,000
2025	150,000
2026	<u>30,000</u>
	790,000
Less: discount on long-term pledges receivable	<u>(9,103)</u>
	<u>\$ 780,897</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>2021</u>	<u>2020</u>
Land	\$ 1,276,542	\$ 1,276,542
Buildings and improvements	5,643,982	5,590,948
Furniture and equipment	2,665,264	2,613,276
Computer and software	<u>1,003,466</u>	<u>964,424</u>
	10,589,254	10,445,190
Less: Accumulated depreciation	<u>(5,839,937)</u>	<u>(5,385,714)</u>
	<u>\$ 4,749,317</u>	<u>\$ 5,059,476</u>

Depreciation expense for the years ended June 30, 2021 and 2020 was approximately \$454,200 and \$392,000, respectively.

5. CONSTRUCTION IN PROGRESS

For the year ended June 30, 2021, approximately \$198,400 of construction in progress was incurred and approximately \$48,000 was capitalized as assets were put into place with approximately \$1,799,600 remaining in construction in progress as of June 30, 2021. 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 (the "CRT") which was established by donors to provide for life income to a designated beneficiary. The remainder of the CRT at maturity will be distributed to the Organization in support of its mission. The CRT is a separate legal entity created under provisions of Section 664 of the IRC and has a third-party trustee. 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 increase in value of the CRT was \$116,495 and decrease of \$66,098 for the years ended June 30, 2021 and 2020, respectively.

7. LONG-TERM DEBT

On October 6, 2016, the Organization converted a line of credit to a note payable with fifty-nine monthly consecutive principal and interest payments of \$3,332 based on the then current prime rate plus 1.5% as published in the Wall Street Journal, at 4.75% per annum leaving a final principal payment of \$408,353. The remaining principal will be due in full January 5, 2026. There was a balance of \$491,953 and \$542,856 on the note payable at June 30, 2021 and 2020, respectively.

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

2022	\$ 17,000
2023	17,600
2024	18,400
2025	19,300
2026	<u>419,653</u>
	<u>\$ 491,953</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, 2021 and 2020.

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 were due without early repayment penalty. The final payment for capital lease obligations was made in March 2021. The balance due at June 30, 2021 and 2020 was \$0 and \$16,861, respectively.

10. CONDITIONAL GRANTS

Paycheck Protection Program Loan

In April 2020, the Organization received a loan of \$2,015,073 under the Small Business Administration Paycheck Protection Program. Loans received under this program are eligible for forgiveness as documented in the regulations. On July 28, 2021, the Organization received notice of full loan forgiveness and recognized the loan balance of \$2,015,073 as public support income in the statement of activities for the year ended June 30, 2021 because all conditions required for forgiveness were met prior to that date.

10. CONDITIONAL GRANTS (Cont.)

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 \$3,775,000. 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, 2021, the Organization has received \$1,500,000 and is eligible to receive \$1,000,000 in general operating support and \$2,500,000 in capital support in future periods if the criteria specified by the grantor are 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 a 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>

As of June 30, 2021, the Organization has received approximately \$185,600 of funding and is eligible to receive approximately \$814,800 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, 2021 and 2020, employer contributions to the plan totaled approximately \$231,000 and \$238,000, respectively.

12. CONCENTRATIONS, RISKS AND UNCERTAINTIES

Concentrations

During the year ended June 30, 2021, 64% of Net Patient Services Revenues were derived from the State of California Department of Health Care Services, and 15% derived from the Federal Government Medicare Program. 85% of Grant revenue was provided by the Federal Government.

During the year ended June 30, 2020, 62% of 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. 71% of Grant revenue was 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 \$7,144,600 at June 30, 2021.

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 through November 2024 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.

13. OBLIGATIONS UNDER OPERATING LEASES (Cont.)

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. In July, 2015 the Organization began operations in its Goleta Medical Clinic which were relocated and expanded from 220 South Patterson Avenue to 5582 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. Beginning in January 1, 2022, the 5580 Calle Real and 5582 Calle Real leases will be combined and will maintain the same terms as the previous leases and will end on December 31, 2026 with an option to extend for two, five year terms.

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 at 970 Embarcadero Del Mar, which was previously a month-to-month lease. On June 12, 2020 the lease was extended for an additional five years and will terminate on July 30, 2025, after which one additional five year extension remains. The terms are for a monthly rent of \$7,938 for five years.

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. Subsequent to June 30, 2021, the Organization extended the lease with monthly lease payments of \$10,290 with 3% increase at each year of the term beginning on September 1, 2021 and ending on August 21, 2023 with two, one year extensions.

On March 27, 2020 the Organization entered into a lease agreement for the 1,495 square-foot Goleta Valley location at 2320 Bath Street beginning on April 1, 2020 and ending on March 31, 2023. Rent per the agreement is discounted at \$2 per year. The Organization recognized approximately \$53,800 of in-kind contributions. The initial lease term of the agreement is three years with an option to extend the lease for an additional three years.

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

2022	\$ 345,600
2023	197,100
2024	198,600
2025	<u>117,700</u>
	<u>\$ 859,000</u>

14. 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>2021</u>	<u>2020</u>
<i>Expended:</i>		
Construction in progress	\$ 1,799,573	\$ 1,649,226
<i>Restricted as to future expenditures:</i>		
Charitable remainder trust	577,908	461,412
Construction and capital purchases	1,366,260	72,714
Bariatric dental chairs	120	120
Unexpended grants	-	98,289
Time restricted grants	55,000	-
Time restricted receivables, net	<u>780,897</u>	<u>669,859</u>
Total funds restricted to expenditure for specified purposes	<u>\$ 4,579,758</u>	<u>\$ 2,951,620</u>

15. CASH FLOW INFORMATION

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

	<u>2021</u>	<u>2020</u>
In-kind donation of medical supplies	\$ 601,382	\$ 715,145
In-kind donation of professional services	68,532	22,348
In-kind donation of rent	53,818	32,432
Miscellaneous in-kind contributions	300	14,289

16. SUBSEQUENT EVENTS

Santa Barbara Cottage Hospital Grant

On September 26, 2021, the Organization received notice from Santa Barbara Cottage Hospital that the conditional grant agreement has been extended by one year and an additional \$1,000,000 has been approved for capital support. Refer to Note 10.

Line of Credit

On October 25, 2021, the Organization renewed the revolving operating line of credit with a new maturity date of January 5, 2023. Under the new terms, the line of credit increased from \$300,000 to \$500,000 with no change in the interest rate.

16. SUBSEQUENT EVENTS (Cont.)

American Rescue Plan of 2021

On March 11, 2021, the American Rescue Plan of 2021 (the "Plan") was signed into law. Under the Plan, the Organization will receive \$4,911,875 to assist with the funding of its operations through March 31, 2023. In addition, the Organization will receive \$739,459 for infrastructure funding through September 14, 2024.

SUPPLEMENTARY INFORMATION

SANTA BARBARA NEIGHBORHOOD CLINICS
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

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	\$ 1,915,985	\$ -	\$ 1,915,985
COVID-19 Coronavirus Supplemental Funding for Health Centers	93.224		H8CCS34209	1,001,184	-	1,001,184
Dental Faculty Loan Repayment Grant	93.059		D87HP32141	111,337	-	111,337
Title X Family Planning Program	93.217	Essential Access Health	5 FPHA006470-02	-	216,471	216,471
Title X Family Planning Program	93.217	Essential Access Health	5 FPHA006470-03	-	55,000	55,000
<i>Total U.S. Department of Health and Human Services</i>				<u>3,028,506</u>	<u>271,471</u>	<u>3,299,977</u>
<i>U.S. Department of Housing and Urban Development</i>						
Community Development Block Grants/Entitlement Grants	14.218	City of Goleta	Contract 21NS054	-	11,276	11,276
<i>Total U.S. Department of Housing and Urban Development</i>				<u>-</u>	<u>11,276</u>	<u>11,276</u>
<i>Total Expenditure of Federal Awards</i>				<u>\$ 3,028,506</u>	<u>\$ 282,747</u>	<u>\$ 3,311,253</u>

SANTA BARBARA NEIGHBORHOOD CLINICS
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

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, 2021, 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, 2021. 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, 2021.

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.

Hutchinson and Bloodgood LLP

Hutchinson & Bloodgood LLP
January 26, 2022
Santa Barbara, California

SANTA BARBARA NEIGHBORHOOD CLINICS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021

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.