

SANTA BARBARA NEIGHBORHOOD CLINICS

INDEPENDENT AUDITOR'S REPORTS,
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2022 AND 2021

SANTA BARBARA NEIGHBORHOOD CLINICS
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Santa Barbara Neighborhood Clinics

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Santa Barbara Neighborhood Clinics (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Santa Barbara Neighborhood Clinics as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on 2021 Financial Statements

We previously expressed an unmodified opinion on the June 30, 2021 financial statements in our report dated January 26, 2022. As described in Note 2, the Organization understated the amounts due to Medi-Cal as of June 30, 2021. The June 30, 2021 financial statements have been restated to reduce net assets and increase the liability to Medi-Cal for the period prior to July 1, 2021.

Basis for Opinion

We conducted our audit in accordance with 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Santa Barbara Neighborhood Clinics and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Santa Barbara Neighborhood Clinics' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Santa Barbara Neighborhood Clinics' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Santa Barbara Neighborhood Clinics' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

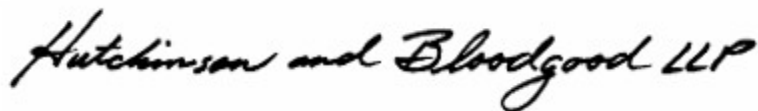
Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 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 April 26, 2023, on our consideration of Santa Barbara Neighborhood Clinics' 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 Santa Barbara Neighborhood Clinics' 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 Santa Barbara Neighborhood Clinics' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Hutchinson and Bloodgood LLP". The script is cursive and fluid, with the letters "H" and "B" being particularly large and stylized.

Hutchinson and Bloodgood LLP
Santa Barbara, California
April 26, 2023

SANTA BARBARA NEIGHBORHOOD CLINICS
Statements of Financial Position
June 30, 2022 and 2021

<i>Assets</i>	Without Donor Restrictions	With Donor Restrictions	2022	Without Donor Restrictions	With Donor Restrictions	Restated 2021
<i>Current Assets</i>						
Cash and cash equivalents	\$ 7,069,559	\$2,601,208	\$ 9,670,767	\$ 5,946,407	\$1,421,380	\$ 7,367,787
Accounts receivable, net	1,689,257	-	1,689,257	2,841,896	-	2,841,896
Employee Retention Credit receivable	3,036,369	-	3,036,369	-	-	-
Pledges receivable, net	-	200,000	200,000	-	210,000	210,000
Prepaid expenses and deposits	111,227	-	111,227	94,106	-	94,106
Other assets	41,870	-	41,870	58,359	-	58,359
Inventory, net	92,695	-	92,695	85,283	-	85,283
<i>Total current assets</i>	12,040,977	2,801,208	14,842,185	9,026,051	1,631,380	10,657,431
<i>Other Assets</i>						
Pledges receivable, net	-	421,375	421,375	-	570,897	570,897
Present value of future receivable on charitable remainder trust	-	538,656	538,656	-	577,908	577,908
Construction in progress	-	1,994,771	1,994,771	-	1,799,573	1,799,573
Property and equipment, net	4,564,657	-	4,564,657	4,749,317	-	4,749,317
<i>Total other assets</i>	4,564,657	2,954,802	7,519,459	4,749,317	2,948,378	7,697,695
<i>Total assets</i>	\$16,605,634	\$5,756,010	\$ 22,361,644	\$ 13,775,368	\$4,579,758	\$ 18,355,126
<i>Liabilities and Net Assets</i>						
<i>Current Liabilities</i>						
Accounts payable	\$ 1,074,266	\$ -	1,074,266	\$ 653,151	\$ -	\$ 653,151
Accrued liabilities	1,089,432	-	1,089,432	1,512,367	-	1,512,367
Medi-Cal payable, net	1,559,288	-	1,559,288	-	-	-
Current portion of long-term debt	17,600	-	17,600	17,000	-	17,000
<i>Total current liabilities</i>	3,740,586	-	3,740,586	2,182,518	-	2,182,518
<i>Other Liabilities</i>						
Medi-Cal payable, net and net of current portion	827,631	-	827,631	1,559,288	-	1,559,288
Long-term debt	456,001	-	456,001	474,953	-	474,953
<i>Total other liabilities</i>	1,283,632	-	1,283,632	2,034,241	-	2,034,241
<i>Total liabilities</i>	5,024,218	-	5,024,218	4,216,759	-	4,216,759
<i>Net Assets</i>						
Without donor restrictions	11,581,416	-	11,581,416	9,558,609	-	9,558,609
With donor restrictions	-	5,756,010	5,756,010	-	4,579,758	4,579,758
<i>Total net assets</i>	11,581,416	5,756,010	17,337,426	9,558,609	4,579,758	14,138,367
	\$16,605,634	\$5,756,010	\$ 22,361,644	\$ 13,775,368	\$4,579,758	\$ 18,355,126

SANTA BARBARA NEIGHBORHOOD CLINICS
Statements of Activities
Years Ended June 30, 2022 and 2021

	Without Donor Restrictions	With Donor Restrictions	2022	Without Donor Restrictions	With Donor Restrictions	Restated 2021
<i>Public Support and Revenue</i>						
<i>Public Support</i>						
Contributions	\$ 3,454,708	\$ 1,430,026	\$ 4,884,734	\$ 4,730,903	\$ 1,769,666	\$ 6,500,569
In-kind contributions	467,492	-	467,492	724,032	-	724,032
Net assets released from restrictions	214,523	(214,523)	-	258,023	(258,023)	-
<i>Total public support</i>	4,136,723	1,215,503	5,352,226	5,712,958	1,511,643	7,224,601
<i>Revenue</i>						
Employee Retention Credit	3,036,369	-	3,036,369	-	-	-
Paycheck Protection Program loan forgiveness	-	-	-	2,015,073	-	2,015,073
Program service fees	10,507,037	-	10,507,037	9,982,576	-	9,982,576
Rental income	21,114	-	21,114	-	-	-
Grant revenue	5,429,529	-	5,429,529	3,639,984	-	3,639,984
Interest income	2,261	-	2,261	3,520	-	3,520
Change in value of charitable remainder trust	-	(39,251)	(39,251)	-	116,495	116,495
Other income	26,373	-	26,373	86,804	-	86,804
<i>Total revenue</i>	19,022,683	(39,251)	18,983,432	15,727,957	116,495	15,844,452
<i>Total public support and revenue</i>	23,159,406	1,176,252	24,335,658	21,440,915	1,628,138	23,069,053
<i>Expenses</i>						
Program services	16,489,769	-	16,489,769	15,257,397	-	15,257,397
Management and general	4,354,494	-	4,354,494	3,783,944	-	3,783,944
Fundraising	292,336	-	292,336	287,447	-	287,447
<i>Total expenses</i>	21,136,599	-	21,136,599	19,328,788	-	19,328,788
<i>Increase in net assets</i>	2,022,807	1,176,252	3,199,059	2,112,127	1,628,138	3,740,265
<i>Net assets, beginning of year</i>	9,558,609	4,579,758	14,138,367	7,446,482	2,951,620	10,398,102
<i>Net assets, end of year</i>	\$ 11,581,416	\$ 5,756,010	\$ 17,337,426	\$ 9,558,609	\$ 4,579,758	\$ 14,138,367

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

SANTA BARBARA NEIGHBORHOOD CLINICS
Statements of Functional Expenses
Years Ended June 30, 2022 and 2021

		Supporting Services				Supporting Services			
	Program Services	Management and General	Fundraising	2022	Program Services	Management and General	Fundraising	Restated 2021	
Salaries	\$ 9,468,500	\$ 2,105,328	\$ 154,788	\$ 11,728,616	\$ 8,544,162	\$ 1,813,577	\$ 156,705	\$ 10,514,444	
Payroll taxes	684,790	151,071	11,873	847,734	591,004	127,535	11,820	730,359	
Employee benefits	1,099,412	293,270	15,811	1,408,493	1,030,174	453,188	12,830	1,496,192	
Total salaries and benefits	11,252,702	2,549,669	182,472	13,984,843	9,904,143	2,401,059	161,425	12,740,995	
Consulting services	114,828	396,859	36,219	547,906	41,050	125,432	20,000	186,482	
Contract labor	627,910	178,749	750	807,409	589,443	468,331	2,815	1,060,589	
Depreciation	356,949	27,749	-	384,698	425,601	28,624	-	454,225	
Equipment leases	-	2,926	-	2,926	98	4,009	-	4,107	
Information technology	639,946	248,207	159	888,312	502,695	181,547	115	684,357	
Interest	-	23,196	-	23,196	-	50,620	-	50,620	
Occupancy	394,341	18,530	-	412,871	272,032	19,399	-	291,431	
Operating expenses	70,009	66,852	33,360	170,221	235,882	61,882	30,263	328,027	
Outside services	25,403	539,385	19,131	583,919	22,444	113,334	22,633	158,411	
Printing and postage	59,851	42,916	8,499	111,266	68,995	39,369	25,252	133,616	
Professional development	326,675	106,336	11,419	444,430	223,617	148,837	1,284	373,738	
Professional liability insurance	48,483	-	-	48,483	56,260	-	-	56,260	
Rent	659,145	121,190	-	780,335	599,560	114,330	-	713,890	
Supplies	1,869,150	15,740	252	1,885,142	1,989,159	14,310	3,730	2,007,199	
Telephone	44,377	16,190	75	60,642	65,221	19,620	-	84,841	
	\$ 16,489,769	\$ 4,354,494	\$ 292,336	\$ 21,136,599	\$ 15,257,397	\$ 3,783,944	\$ 287,447	\$ 19,328,788	

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

SANTA BARBARA NEIGHBORHOOD CLINICS

Statements of Cash Flows

Years Ended June 30, 2022 and 2021

	2022	Restated 2021
<i>Cash flows from operating activities</i>		
Cash received from service revenues, net	\$ 17,947,202	\$ 14,396,323
Cash received from contributions without donor restrictions	3,454,708	4,730,903
Cash received from contributions with donor restrictions	189,663	500,166
Interest income	2,261	3,520
Cash paid for salaries and related expenses	(14,407,778)	(12,539,503)
Cash paid for other operating costs	(5,846,176)	(5,288,384)
Interest paid	(23,196)	(50,620)
<i>Net cash provided by operating activities</i>	1,316,684	1,752,405
<i>Cash flows from investing activities</i>		
Purchase of property and equipment and increase in construction in progress	(395,237)	(294,413)
<i>Net cash used by investing activities</i>	(395,237)	(294,413)
<i>Cash flows from financing activities</i>		
Cash received from contributions restricted for capital expenditures	1,399,885	1,299,359
Payments on long-term debt	(18,352)	(67,764)
<i>Net cash provided by financing activities</i>	1,381,533	1,231,595
Net increase in cash and cash equivalents	2,302,980	2,689,587
<i>Cash and cash equivalents, beginning of year</i>	7,367,787	4,678,200
<i>Cash and cash equivalents, end of year</i>	\$ 9,670,767	\$ 7,367,787
Reconciliation of increase in net assets to net cash provided by operating activities		
Increase in net assets	\$ 3,199,059	\$ 3,740,265
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	384,698	454,225
Change in value of charitable remainder trust	39,251	(116,495)
Change in provision for contractual allowances and bad debt	(497,950)	43,743
Capital contributions for construction of Westside Clinic	(1,399,885)	(1,299,359)
Paycheck Protection Program loan forgiveness	-	(2,015,073)
(Increase) decrease in:		
Accounts receivable	1,650,591	362,911
Employee Retention Credit receivable	(3,036,369)	-
Pledges receivable	159,522	(111,038)
Prepaid expenses and deposits	(17,121)	(3,739)
Inventory	(7,412)	10,679
Other assets	16,489	(58,359)
Increase (decrease) in:		
Accounts payable	421,115	235,621
Medi-Cal payable, net	827,631	424,941
Accrued liabilities	(422,935)	201,492
Deferred revenue	-	(50,000)
Other liabilities	-	(67,409)
<i>Net cash provided by operating activities</i>	\$ 1,316,684	\$ 1,752,405

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

SANTA BARBARA NEIGHBORHOOD CLINICS
Notes to Financial Statements
June 30, 2022 and 2021

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, chronic care management, and chiropractic services.
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, health education and wellness promotion services, including chronic care management.
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 at least \$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, 2022, approximately \$17,040,300 has been collected with \$4,281,100 restricted for the construction of the Organization's new Westside Clinic, and \$375,000 restricted for other capital purchases. Refer to Note 19.

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: These are 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: These are 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, 2022 and 2021 there were no donor restricted funds that were permanent in nature.

If the donor restrictions on contributions are met in the year of receipt, the contributions 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 care at no cost or reduced cost to eligible patients based upon the individual patient's financial resources. The Organization's policy provides care at no cost or reduced cost to patients with income to up 200% of the federal poverty guidelines. Records are kept to identify, approve, and monitor those costs that are incurred under the sliding fee scale determination policy. Revenues are reported at the amounts billed.

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 well as from private insurance or self-pay individuals. As of June 30, 2022 and 2021, 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, 2022 and 2021.

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 2018 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, 2022 and 2021 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 in excess of \$1,000 for equipment, building improvements and major renewals 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.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Recent Accounting Pronouncements

In September 2020, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The objective of this ASU is to increase transparency of contributed nonfinancial assets for not-for-profit (“NFP”) entities through enhancements to presentation and disclosure. The amendments in this ASU apply to NFPs that receive contributed nonfinancial assets. Contribution revenue may be presented in the financial statements using different terms (for example, gifts, donations, grants, gifts-in-kind, donated services, or other terms). The term nonfinancial asset includes fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets. The amendments in this ASU will improve financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets for NFPs, including additional disclosure requirements for recognized contributed services. The amendments will not change the recognition and measurement requirements. ASU 2020-07 is effective for the fiscal year ended June 30, 2022 and has been applied on a retrospective basis.

Subsequent Events

Management has evaluated subsequent events through April 26, 2023, the date that the financial statements were available to be issued. Refer to Note 19.

2. PRIOR PERIOD RESTATEMENT

The Organization understated the net amounts payable related to Medi-Cal services provided as of June 30, 2021 for services provided during the years ended June 30, 2021, 2020 and 2019. As of June 30, 2021, the net payable was understated by \$1,167,010. For the year ended June 30, 2021, program service fees were overstated by \$424,941. The Organization has restated its June 30, 2021 financial statements to correct net assets and accrued additional liability for the amounts due related Medi-Cal payables due for periods prior to July 1, 2021.

3. 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, 2022:

Cash and cash equivalents	\$ 7,069,559
Employee Retention Credit receivable	3,036,369
Accounts receivable, net	<u>1,689,257</u>
	<u>\$ 11,795,185</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, 2023.

4. ACCOUNTS RECEIVABLE

Accounts receivable consist 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.

Accounts receivables consists of the following as of June 30:

	<u>2022</u>	<u>2021</u>
Patient fees and insurance	\$ 2,845,528	\$ 3,732,232
CenCal Incentive	160,446	398,600
Grants receivable - HRSA	-	670,152
Medicare	62,681	-
Other receivables	<u>270,846</u>	<u>189,108</u>
	3,339,501	4,990,092
Less: provision for contractual allowances and bad debt	<u>(1,650,244)</u>	<u>(2,148,196)</u>
	<u>\$ 1,689,257</u>	<u>\$ 2,841,896</u>

5. PLEDGES RECEIVABLE

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.

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.

Pledges receivable as of June 30, 2022 are expected to be received as follows:

2023	200,000
2024	200,000
2025	150,000
2026	<u>90,000</u>
	640,000
Less: discount on long-term pledges receivable	<u>(18,625)</u>
	<u>\$ 621,375</u>

6. EMPLOYEE RETENTION CREDIT

The Organization expects to receive \$3,036,369 from the Employee Retention Credit under The Coronavirus Aid, Relief, and Economic Security Act. The Employee Retention Credit was created by Congress to encourage employers to keep their employees on the payroll during the months in 2020 affected by the coronavirus pandemic. When initially introduced, this tax credit was worth 50% of qualified employee wages but limited to \$10,000 for any one employee, granting a maximum credit of \$5,000 for wages paid from March 13, 2020, to December 31, 2021. It was modified, increasing the percentage of qualified wages to 70% for 2021. The per employee wage limit was increased from \$10,000 per year to \$10,000 per quarter.

The amounts due to the Organization for the Employee Retention Credit were recorded as a receivable and as revenue in the financial statements for the year ended June 30, 2022. The Organization engaged consultants to perform the computation of the credit. The fees associated with these services are 12.5% of the credit or \$379,546, which has been accrued in accounts payable and included as an outside services expense within the management and general category of the statement of functional expense in the financial statements for the year ended June 30, 2022.

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Land	\$ 1,276,542	\$ 1,276,542
Buildings and improvements	5,770,745	5,643,982
Furniture and equipment	2,717,096	2,665,264
Computer and software	<u>1,024,911</u>	<u>1,003,466</u>
	10,789,294	10,589,254
Less: Accumulated depreciation	<u>(6,224,637)</u>	<u>(5,839,937)</u>
	<u>\$ 4,564,657</u>	<u>\$ 4,749,317</u>

Depreciation expense for the years ended June 30, 2022 and 2021 was approximately \$364,700 and \$454,200, respectively.

8. CONSTRUCTION IN PROGRESS

For the year ended June 30, 2022, approximately \$395,200 of construction in progress was incurred and approximately \$156,700 was capitalized as assets were put into place with approximately \$1,994,800 remaining in construction in progress as of June 30, 2022. 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.

9. CHARITABLE REMAINDER TRUST

The Organization was named as the residual beneficiary in a charitable remainder trust (the “CRT”) which was established by the donors to provide for life income to the designated beneficiary. The remainder of the CRT at maturity is to 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 at June 30, 2022 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 \$39,251 and increase of \$116,495 for the years ended June 30, 2022 and 2021, respectively. Refer to Note 19.

10. MEDI-CAL PAYABLE

The Department of Health Care Services performs an 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 analysis, the settlement amount as of June 30, 2022 results in a net payable to Medi-Cal of approximately \$2,386,900.

11. LONG-TERM DEBT

On November 26, 2021, 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 an interest rate of 4.75% per annum and a final principal payment of \$408,353. The remaining principal will be due in full on January 5, 2026. There was a balance of \$473,601 and \$491,953 on the note payable at June 30, 2022 and 2021, respectively.

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

2023	17,600
2024	18,400
2025	19,300
2026	<u>418,301</u>
	<u>\$ 473,601</u>

12. LINE OF CREDIT

Prior to the year ended June 30, 2021, the Organization maintained 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 were required. In June 2020, the terms of the loan were amended and any outstanding principal was 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, 2022.

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.

13. CONDITIONAL GRANTS

Charitable Remainder Trust

In September 2019, the Organization was notified that it had been named as the 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. In September 2021, the grant agreement was extended for an additional year and an additional \$1,000,000. The grant terms required that of each \$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, 2022, the Organization has received \$2,000,000 and is eligible to receive \$500,000 in general operating support and \$3,000,000 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. As the Organization has identified qualified employees, who met the criteria, award amounts received were recorded as grant income.

The maximum available award amount by fiscal year is as follows:

2018	\$ 100,000
2020	600,000
2021	300,000
2022	<u>300,000</u>
	<u>\$ 1,000,000</u>

As of June 30, 2022, the Organization has received approximately \$399,700 of funding and is eligible to receive approximately \$600,300 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.

14. RETIREMENT PLAN

The Organization has adopted a 403(b) retirement plan that 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, 2022 and 2021, employer contributions to the plan totaled approximately \$244,300 and \$465,800, respectively.

15. CONCENTRATIONS, RISKS AND UNCERTAINTIES

Concentrations

During the year ended June 30, 2022, 65% of net patient services revenues were derived from the State of California Department of Health Care Services, and 11% derived from the Federal Government Medicare Program. Approximately 100% of grant revenue was provided by the Federal Government.

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.

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 \$9,921,200 at June 30, 2022.

16. OBLIGATIONS UNDER OPERATING LEASES

In June 2014, the Organization entered into a lease agreement for the Goleta Dental Clinic located at 164 Kinman Ave with annual increases of 3% to 6%, based on Consumer Price Index ("CPI"). In November 2014, the lease was amended to add a second suite. In March 2015, a second amendment was executed to add a third suite to the lease for a total of 3,074 square feet. 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.

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 at the new site. In addition, the Organization signed a second long-term lease to expand the Goleta Medical Clinic into a second portion of the building, 5582 Calle Real. The new lease had a term of five years commencing November 1, 2015 and called for monthly base rent of \$8,070. Beginning in January 1, 2022, the 5580 Calle Real and 5582 Calle Real leases were 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.

16. OBLIGATIONS UNDER OPERATING LEASES (Cont.)

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. Rent increases 3% each year.

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. 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 Bridge Clinic 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 \$70,900 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:

2023	\$ 637,600
2024	646,800
2025	458,500
2026	341,800
2027	<u>170,600</u>
	<u>\$ 2,255,300</u>

17. 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>2022</u>	<u>2021</u>
<i>Expended:</i>		
Construction in progress	\$ 1,994,771	\$ 1,799,573
<i>Restricted as to future expenditures:</i>		
Charitable remainder trust	538,686	577,908
Construction and capital purchases	2,601,088	1,366,260
Bariatric dental chairs	120	120
Time restricted grants	-	55,000
Time restricted receivables, net	<u>621,375</u>	<u>780,897</u>
Total funds restricted to expenditure for specified purposes	<u>\$ 5,756,010</u>	<u>\$ 4,579,758</u>

18. CASH FLOW INFORMATION

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

	<u>2022</u>	<u>2021</u>
In-kind donation of medical supplies	\$ 346,100	\$ 601,400
In-kind donation of professional services	50,500	68,800
In-kind donation of rent	70,900	53,800

19. SUBSEQUENT EVENTS

Charitable Remainder Trust

The sole beneficiary of the charitable remainder trust passed on October 3, 2022, and according to the agreement the Organization is to receive the principal and income of the trust. The approximate fair value of the CRT at the date of death was \$491,400.

Westside Clinic Campaign

Subsequent to June 30, 2020 and through the date of this report, the Organization received additional contributions for the Westside Clinic Campaign totaling approximately \$713,000.

SUPPLEMENTARY INFORMATION

SANTA BARBARA NEIGHBORHOOD CLINICS
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

Federal Grantor / Pass-Through Grantor/Program Title	Assistance Listing 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	\$ 2,985,811	\$ -	\$ 2,985,811
COVID-19 Coronavirus Supplemental Funding for Health Centers	93.224		H8CCS34209	2,746,325	-	2,746,325
Dental Faculty Loan Repayment Grant	93.059		D87HP32141	214,118	-	214,118
Title X Family Planning Program	93.217	Essential Access Health	5 FPHA006470-02	-	284,321	284,321
<i>Total U.S. Department of Health and Human Services</i>				<u>5,946,254</u>	<u>284,321</u>	<u>6,230,575</u>
<i>Total Expenditure of Federal Awards</i>				<u>\$ 5,946,254</u>	<u>\$ 284,321</u>	<u>\$ 6,230,575</u>

SANTA BARBARA NEIGHBORHOOD CLINICS
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

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, 2022, 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



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200 E. Carrillo St., Suite 303
Santa Barbara, CA 93101

**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, 2022, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 26, 2023.

Report on 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) as a basis for designing 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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. We did not identify any material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a significant deficiency.

Report on 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 financial statements. 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 script is cursive and fluid, with the letters "H" and "B" being particularly large and stylized.

Hutchinson and Bloodgood LLP
Santa Barbara, California
April 26, 2023

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

Opinion on Each Major Federal Program

We have audited Santa Barbara Neighborhood Clinics' (the "Organization") compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

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, 2022.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements

of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the noncompliance findings identified in our audit described in the

accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

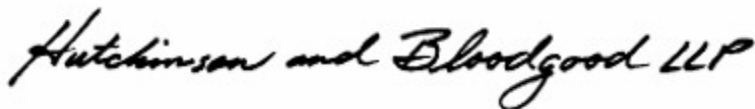
Report on Internal Control over Compliance

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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

A handwritten signature in black ink that reads "Hutchinson and Bloodgood LLP". The script is cursive and fluid, with the letters "H" and "B" being particularly large and stylized.

Hutchinson and Bloodgood LLP
Santa Barbara, California
April 26, 2023

SANTA BARBARA NEIGHBORHOOD CLINICS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2022

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?	Yes
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:

Assistance

Listing Number	Program Name	
93.224	Consolidated Heath 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

2022-001 Medi-Cal Services Accounting

Criteria: Santa Barbara Neighborhood Clinics (the “Organization”) must establish and maintain effective internal controls over receipt of funds and amounts earned for services provided to Medi-Cal patients.

Condition: The Organization for the current and prior periods had not accrued amounts due to Medi-Cal for prior fiscal years resulting in a cumulative understatement of the liability by \$1,167,010.

Cause: Prior management had not reconciled nor confirmed the balances related to Medi-Cal services with the Department of Health Care Services resulting in the understatement of the liability.

Effect: The Organization understated the net amounts payable related to Medi-Cal services provided as of June 30, 2021 for services provided during the years ended June 30, 2021, 2020 and 2019. As of June 30, 2021, the net payable was understated by \$1,167,010. For the year ended June 30, 2021, program service fees were overstated by \$424,941.

Recommendation: We recommend that management develop procedures to track Medi-Cal funds received and earned on a monthly basis and at least annually confirm the balances due to/due from with the Department of Health Care Services.

Management’s Response: Management is in agreement with this finding and has implemented the recommendation.

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.