

SANTA BARBARA NEIGHBORHOOD CLINICS

INDEPENDENT AUDITOR'S REPORTS,
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2023 AND 2022

SANTA BARBARA NEIGHBORHOOD CLINICS
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INDEPENDENT AUDITOR'S REPORT

Board of Directors of
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, which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years 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, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 opinion.

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.

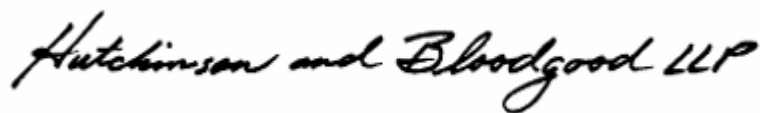
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 March 27, 2024, 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
March 27, 2024
Santa Barbara, California

SANTA BARBARA NEIGHBORHOOD CLINICS
Statements of Financial Position
June 30, 2023 and 2022

<i>Assets</i>	Without Donor Restrictions	With Donor Restrictions	2023	Without Donor Restrictions	With Donor Restrictions	2022
<i>Current Assets</i>						
Cash and cash equivalents	\$ 1,710,974	\$ -	\$ 1,710,974	\$ 7,069,559	\$2,601,208	\$ 9,670,767
Accounts receivable, net	1,836,701	-	1,836,701	1,689,257	-	1,689,257
Employee Retention Credit receivable	3,331,525	-	3,331,525	3,036,369	-	3,036,369
Pledges receivable, net	-	290,000	290,000	-	200,000	200,000
Prepaid expenses and deposits	295,115	-	295,115	111,227	-	111,227
Investments	7,589,627	2,376,678	9,966,305	-	-	-
Other assets	59,843	-	59,843	41,870	-	41,870
Inventory, net	-	-	-	92,695	-	92,695
<i>Total current assets</i>	14,823,785	2,666,678	17,490,463	12,040,977	2,801,208	14,842,185
<i>Other Assets</i>						
Pledges receivable, net	-	436,753	436,753	-	421,375	421,375
Present value of future receivable on charitable remainder trust	-	-	-	-	538,656	538,656
Right of use assets	1,638,022	-	1,638,022	-	-	-
Construction in progress	-	2,131,984	2,131,984	-	1,994,771	1,994,771
Property and equipment, net	4,845,336	-	4,845,336	4,564,657	-	4,564,657
<i>Total other assets</i>	6,483,358	2,568,737	9,052,095	4,564,657	2,954,802	7,519,459
<i>Total assets</i>	\$21,307,143	\$5,235,415	\$ 26,542,558	\$ 16,605,634	\$5,756,010	\$ 22,361,644
<i>Liabilities and Net Assets</i>						
<i>Current Liabilities</i>						
Accounts payable	\$ 483,780	\$ -	\$ 483,780	\$ 1,074,266	\$ -	\$ 1,074,266
Accrued liabilities	1,457,312	-	1,457,312	1,089,432	-	1,089,432
Medi-Cal payable, net	2,130,504	-	2,130,504	1,559,288	-	1,559,288
Leases current, net	598,657	-	598,657	-	-	-
Current portion of long-term debt	-	-	-	17,600	-	17,600
<i>Total current liabilities</i>	4,670,253	-	4,670,253	3,740,586	-	3,740,586
<i>Other Liabilities</i>						
Medi-Cal payable, net and net of current portion	-	-	-	827,631	-	827,631
Leases non-current	1,062,390	-	1,062,390	-	-	-
Long-term debt	-	-	-	456,001	-	456,001
<i>Total other liabilities</i>	1,062,390	-	1,062,390	1,283,632	-	1,283,632
<i>Total liabilities</i>	5,732,643	-	5,732,643	5,024,218	-	5,024,218
<i>Net Assets</i>						
Without donor restrictions	15,574,500	-	15,574,500	11,581,416	-	11,581,416
With donor restrictions	-	5,235,415	5,235,415	-	5,756,010	5,756,010
<i>Total net assets</i>	15,574,500	5,235,415	20,809,915	11,581,416	5,756,010	17,337,426
	\$21,307,143	\$5,235,415	\$ 26,542,558	\$ 16,605,634	\$5,756,010	\$ 22,361,644

SANTA BARBARA NEIGHBORHOOD CLINICS

Statements of Activities

Years Ended June 30, 2023 and 2022

	Without Donor Restrictions	With Donor Restrictions	2023	Without Donor Restrictions	With Donor Restrictions	2022
Public Support and Revenue						
Public Support						
Contributions	\$ 2,502,916	\$ 1,008,757	\$ 3,511,673	\$ 3,454,708	\$ 1,430,026	\$ 4,884,734
In-kind contributions	484,483	-	484,483	467,492	-	467,492
Net assets released from restrictions	1,531,331	(1,531,331)	-	214,523	(214,523)	-
Total public support	4,518,730	(522,574)	3,996,156	4,136,723	1,215,503	5,352,226
Revenue						
Employee Retention Credit	295,157	-	295,157	3,036,369	-	3,036,369
Program service fees	12,184,311	-	12,184,311	10,507,037	-	10,507,037
Rental income	33,026	-	33,026	21,114	-	21,114
Grant revenue	9,806,091	-	9,806,091	5,429,529	-	5,429,529
Interest income	13,298	-	13,298	2,261	-	2,261
Investment loss, net	(33,695)	-	(33,695)	-	-	-
Change in value of charitable remainder trust	-	1,979	1,979	-	(39,251)	(39,251)
Other income	-	-	-	26,373	-	26,373
Total revenue	22,298,188	1,979	22,300,167	19,022,683	(39,251)	18,983,432
Total public support and revenue	26,816,918	(520,595)	26,296,323	23,159,406	1,176,252	24,335,658
Expenses						
Program services	17,543,944	-	17,543,944	16,489,769	-	16,489,769
Management and general	4,962,377	-	4,962,377	4,354,494	-	4,354,494
Fundraising	317,513	-	317,513	292,336	-	292,336
Total expenses	22,823,834	-	22,823,834	21,136,599	-	21,136,599
Increase (decrease) in net assets	3,993,084	(520,595)	3,472,489	2,022,807	1,176,252	3,199,059
Net assets, beginning of year	11,581,416	5,756,010	17,337,426	9,558,609	4,579,758	14,138,367
Net assets, end of year	\$ 15,574,500	\$ 5,235,415	\$ 20,809,915	\$ 11,581,416	\$ 5,756,010	\$ 17,337,426

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

SANTA BARBARA NEIGHBORHOOD CLINICS

Statements of Functional Expenses

Years Ended June 30, 2023 and 2022

		Supporting Services				Supporting Services			
	Program Services	Management and General	Fundraising	2023		Program Services	Management and General	Fundraising	2022
Salaries	\$ 9,555,960	\$ 2,124,775	\$ 156,218	\$ 11,836,952		\$ 9,468,500	\$ 2,105,328	\$ 154,788	\$ 11,728,616
Payroll taxes	693,592	153,013	12,026	858,631		684,790	151,071	11,873	847,734
Employee benefits	1,132,485	302,092	16,287	1,450,864		1,099,412	293,270	15,811	1,408,493
Total salaries and benefits	11,382,037	2,579,880	184,530	14,146,447		11,252,702	2,549,669	182,472	13,984,843
Consulting services	145,650	503,382	45,941	694,972		114,828	396,859	36,219	547,906
Contract labor	972,005	276,704	1,161	1,249,870		627,910	178,749	750	807,409
Depreciation	784,296	60,971	-	845,267		356,949	27,749	-	384,698
Equipment leases	-	3,889	-	3,889		-	2,926	-	2,926
Information technology	544,328	211,121	135	755,584		639,946	248,207	159	888,312
Interest	68,106	-	-	68,106		-	23,196	-	23,196
Occupancy	-	19,718	-	19,718		394,341	18,530	-	412,871
Operating expenses	604,863	269,798	-	874,661		70,009	66,852	33,360	170,221
Outside services	97,935	72,470	28,649	199,054		25,403	539,385	19,131	583,919
Printing and postage	30,066	638,390	22,643	691,098		59,851	42,916	8,499	111,266
Professional development	47,803	34,277	6,788	88,868		326,675	106,336	11,419	444,430
Professional liability insurance	141,998	127,599	13,702	283,299		48,483	-	-	48,483
Rent	696,910	128,133	-	825,043		659,145	121,190	-	780,335
Supplies	1,974,726	16,629	13,874	2,005,229		1,869,150	15,740	252	1,885,142
Telephone	53,222	19,417	90	72,729		44,377	16,190	75	60,642
	\$ 17,543,944	\$ 4,962,377	\$ 317,513	\$ 22,823,834		\$ 16,489,769	\$ 4,354,494	\$ 292,336	\$ 21,136,599

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

SANTA BARBARA NEIGHBORHOOD CLINICS

Statements of Cash Flows

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<i>Cash flows from operating activities</i>		
Cash received from service revenues, net	\$ 21,403,966	\$ 17,947,202
Cash received from contributions without donor restrictions	2,486,163	3,454,708
Cash received from contributions with donor restrictions	638,052	189,663
Interest income	13,298	2,261
Cash paid for salaries and related expenses	(13,778,567)	(14,407,778)
Cash paid for other operating costs	(7,733,918)	(5,846,176)
Interest paid	(68,106)	(23,196)
<i>Net cash provided by operating activities</i>	<u>2,960,888</u>	<u>1,316,684</u>
<i>Cash flows from investing activities</i>		
Purchase of property and equipment and payments for construction in progress	<u>(1,263,160)</u>	<u>(395,237)</u>
<i>Net cash used by investing activities</i>	<u>(1,263,160)</u>	<u>(395,237)</u>
<i>Cash flows from financing activities</i>		
Cash received from contributions restricted for capital expenditures	818,757	1,399,885
Purchases of investments	(10,002,677)	-
Payments on long-term debt	(473,601)	(18,352)
<i>Net cash provided (used) by financing activities</i>	<u>(9,657,521)</u>	<u>1,381,533</u>
Net increase (decrease) in cash and cash equivalents	(7,959,793)	2,302,980
<i>Cash and cash equivalents, beginning of year</i>	<u>9,670,767</u>	<u>7,367,787</u>
<i>Cash and cash equivalents, end of year</i>	<u><u>\$ 1,710,974</u></u>	<u><u>\$ 9,670,767</u></u>
Reconciliation of increase in net assets to net cash provided by operating activities		
Increase in net assets	\$ 3,472,489	\$ 3,199,059
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	868,292	384,698
Realized investment gains	36,371	-
Change in value of charitable remainder trust	(1,980)	39,251
Change in provision for contractual allowances and bad debt	(227,222)	(497,950)
Capital contributions for construction of Westside Clinic	(818,757)	(1,399,885)
(Increase) decrease in:		
Accounts receivable	79,780	1,650,591
Employee Retention Credit receivable	(295,156)	(3,036,369)
Pledges receivable	(105,378)	159,522
Prepaid expenses and deposits	(183,888)	(17,121)
Inventory	92,695	(7,412)
Proceeds from charitable remainder trust	540,636	-
Other assets	(17,973)	16,489
Increase (decrease) in:		
Accounts payable	(590,486)	421,115
Medi-Cal payable, net	(256,415)	827,631
Accrued liabilities	367,880	(422,935)
<i>Net cash provided by operating activities</i>	<u><u>\$ 2,960,888</u></u>	<u><u>\$ 1,316,684</u></u>

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

SANTA BARBARA NEIGHBORHOOD CLINICS
Notes to Financial Statements
June 30, 2023 and 2022

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.
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.
Medical and Dental Mobile Units	Medical, dental and behavioral health.

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.

In Sept 2021, we realized that our current Healthy People Healthy Communities campaign would not be enough. The COVID pandemic and the increase in overall project costs stemming from inflation, led the Organization to determine that an additional \$6,000,000 would be required to complete the new Westside Clinic. A new fundraising campaign was undertaken, which successfully met the goal.

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, 2023 and 2022 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.

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

Revenue Recognition

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

The Organization provides 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.

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

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, 2023 and 2022, 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.

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. Inventory is valued at the lower of cost or market. The reserve for inventory obsolescence is based upon management's assessment of inventory. During the year ended June 30, 2023, the Organization wrote-off the remaining balance.

Investments

The Organization's investments consist of U.S. treasuries with maturities ranging from December 2023 through May 2024.

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 2019 to the present remain subject to examination by the IRS for federal tax purposes, and the tax years from 2019 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, 2023 and 2022 or for prior periods.

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

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, software and equipment	3-10

Leases

The Organization has adopted Financial Accounting Standard Board (FASB) Accounting Standard codification (ASC 842), *Leases*, with a date of initial application of July 1, 2022. For leases with a lease term greater than one year, the Organization recognizes a lease asset for its right to use the underlying leased asset and a lease liability for the corresponding lease obligation. The Organization determines whether an arrangement is or contains a lease at contract inception. Operating leases with a duration greater than one year are included in operating lease right-of-use assets, current portion operating lease liabilities, and operating lease liabilities, net of current portion in the Organization's statement of financial position as of June 30, 2023.

Operating lease right-of-use assets and operating lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. In determining the present value of lease payments, the Organization uses a risk-free rate of a period comparable with that of the lease term. The Organization considers the lease term to be the noncancelable period that it has the right to use the underlying asset, including all periods covered by an option to (1) extend the lease if the Organization is reasonably certain to exercise the option, (2) terminate the lease if the Organization is reasonably certain not to exercise that option, and (3) extend, or not to terminate, the lease in which exercise of the option is controlled by the lessor.

The operating lease right-of-use assets also include any lease payments made and exclude lease incentives received or receivable. Lease expense is recognized on a straight-line basis over the expected lease term. Variable lease expenses are recorded when incurred.

Use of Estimates

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

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

Subsequent Events

Management has evaluated subsequent events through March 27, 2024, the date that the financial statements were available to be issued.

2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following as of June 30, 2023:

Cash and cash equivalents	\$ 1,710,974
Maturing investments	7,589,627
Employee Retention Credit receivable	3,331,525
Accounts receivable, net	<u>1,836,701</u>
	<u>\$14,468,827</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, 2024.

3. 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>2023</u>	<u>2022</u>
Patient fees and insurance	\$ 2,730,800	\$ 2,845,528
CenCal Incentive	-	160,446
Medicare	62,681	62,681
Other receivables	<u>466,240</u>	<u>270,846</u>
	3,259,721	3,339,501
Less: provision for contractual allowances and bad debt	<u>(1,423,020)</u>	<u>(1,650,244)</u>
	<u>\$ 1,836,701</u>	<u>\$ 1,689,257</u>

4. 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, 2023, are expected to be received as follows for the years ending June 30:

2024	\$ 290,000
2025	204,000
2026	153,600
2026	<u>100,000</u>
	783,600
Less: discount on long-term pledges receivable	<u>(56,847)</u>
	<u><u>\$ 726,753</u></u>

5. EMPLOYEE RETENTION CREDIT

In July 2023, the Organization received \$3,331,525 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 Organization recorded receivables and revenues of \$295,157 and \$3,036,369 from the Employee Retention Credit in the financial statements for the years ended June 30, 2023 and 2022, respectively. 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 had 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. The fees were paid in full in September 2023.

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2023</u>	<u>2022</u>
Land	\$ 1,276,542	\$ 1,276,542
Buildings and improvements	5,409,680	5,770,745
Furniture and equipment	2,461,779	2,717,096
Computer and software	<u>397,138</u>	<u>1,024,911</u>
	9,545,319	10,789,294
Less: Accumulated depreciation	<u>(4,699,983)</u>	<u>(6,224,637)</u>
	<u>\$ 4,845,336</u>	<u>\$ 4,564,657</u>

Depreciation expense for the years ended June 30, 2023 and 2022 was approximately \$845,300 and \$384,700, respectively.

7. LEASES

The Organization leases various office properties. The lease terms end from July 31, 2024 through December 31, 2027.

Lease expense: \$ 613,673

Other information:

Operating cash flows used for operating lease	\$ 542,167
Right of use asset obtained in exchange for operating lease liability	2,127,044
Weighted-average remaining lease term in years for operating lease	3.57
Weighted-average discount rate for operating lease	1.39%

Maturity analysis:

June 30,		
	2024	\$ 617,226
	2025	423,469
	2026	294,377
	2027	244,610
	2028	<u>121,774</u>
Total undiscounted cash flows		1,701,456
Present value discount		<u>(40,409)</u>
Total lease liability		<u>\$ 1,661,047</u>

8. CONSTRUCTION IN PROGRESS

For the year ended June 30, 2023, approximately \$233,410 of construction in progress was incurred and there is \$2,131,584 of construction in progress as of June 30, 2023. 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 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%. During the year ended June 30, 2023, the Organization received the payout of the CRT, which totaled \$540,636.

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, 2023 results in a net payable to Medi-Cal of approximately \$2,131,000.

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 was due in full on January 5, 2026. There was a balance of \$473,601 as of June 30, 2022, and during the year ended June 30, 2023, the Organization paid the note payable in full.

12. LINE OF CREDIT

The Organization maintains an unsecured, revolving operating line of credit of \$500,000, with interest at the current prime rate plus 1% as published in the Wall Street Journal. Monthly payments of interest calculated on the outstanding balance were required. There was no balance outstanding on the line of credit as of June 30, 2023.

13. CONDITIONAL GRANTS

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, 2023, the Organization has received \$2,500,000 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 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, 2023, 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, 2023 and 2022, employer contributions to the plan totaled approximately \$242,000 and \$244,300, respectively.

15. CONCENTRATIONS, RISKS AND UNCERTAINTIES

Concentrations

During the year ended June 30, 2023, 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.

During the year ended June 30, 2021, 72% of net patient services revenues were derived from the State of California Department of Health Care Services, and 12% derived from the Federal Government Medicare Program.

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 \$1,276,800 as of June 30, 2023.

16. 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>2023</u>	<u>2022</u>
<i>Expended:</i>		
Construction in progress	\$ 2,131,984	\$ 1,994,771
<i>Restricted as to future expenditures:</i>		
Charitable remainder trust	-	538,656
Construction and capital purchases	2,376,678	2,601,088
Bariatric dental chairs	-	120
Time restricted receivables, net	<u>726,753</u>	<u>621,375</u>
Total funds restricted to expenditure for specified purposes	<u>\$ 5,235,415</u>	<u>\$ 5,756,010</u>

17. CASH FLOW INFORMATION

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

	<u>2023</u>	<u>2022</u>
In-kind donation of medical supplies	\$ 382,100	\$ 346,100
In-kind donation of professional services	33,500	50,500
In-kind donation of rent	68,900	70,900

SUPPLEMENTARY INFORMATION

SANTA BARBARA NEIGHBORHOOD CLINICS
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

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	\$ 7,785,526	\$ -	\$ 7,785,526
COVID-19 Coronavirus Supplemental Funding for Health Centers	93.224		H8CCS34209	1,191,232	-	1,191,232
Dental Faculty Loan Repayment Grant	93.059		D87HP32141	274,805	-	274,805
Title X Family Planning Program	93.217	Essential Access Health	5 FPHA006470-02	-	70,000	70,000
Title X Family Planning Program	93.217	Essential Access Health	5 FPHA006470-03	-	110,000	110,000
<i>Total U.S. Department of Health and Human Services</i>				9,251,563	180,000	9,431,563
<i>U.S. Department of Housing and Urban Development</i>						
Community Development Block Grants/Entitlement Grants	14.218	City of Goleta	Contract 21NS054	-	11,989	11,989
<i>Total U.S. Department of Housing and Urban Development</i>				-	11,989	11,989
<i>Total Expenditure of Federal Awards</i>				\$ 9,251,563	\$ 191,989	\$ 9,443,552

SANTA BARBARA NEIGHBORHOOD CLINICS
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

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, 2023, 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 REPORTS

**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, 2023, 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 March 27, 2024.

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) 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.

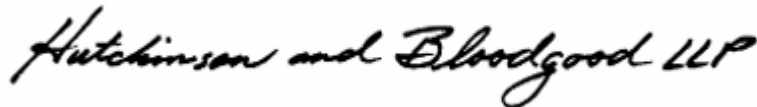
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

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

Hutchinson and Bloodgood LLP
March 27, 2024
Santa Barbara, California

**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' 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 Santa Barbara Neighborhood Clinics' major federal programs for the year ended June 30, 2023. Santa Barbara Neighborhood Clinics' 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, Santa Barbara Neighborhood Clinics 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, 2023.

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 Santa Barbara Neighborhood Clinics 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 Santa Barbara Neighborhood Clinics 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 Santa Barbara Neighborhood Clinics' 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 Santa Barbara Neighborhood Clinics' 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 Santa Barbara Neighborhood Clinics' 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 Santa Barbara Neighborhood Clinics' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Santa Barbara Neighborhood Clinics' 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 Santa Barbara Neighborhood Clinics' 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.

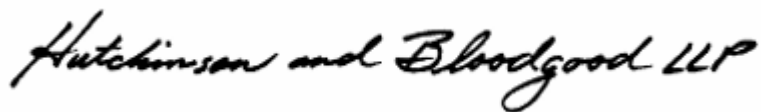
Report on Internal Control over Compliance

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
March 27, 2024
Santa Barbara, California

SANTA BARBARA NEIGHBORHOOD CLINICS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023

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?	No
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

None reported.

SECTION 3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

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.

Federal Awards Findings

None reported.