



SANTA BARBARA NEIGHBORHOOD CLINICS

FINANCIAL STATEMENTS

June 30, 2010



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Santa Barbara Neighborhood Clinics:

We have audited the accompanying statements of financial position of Santa Barbara Neighborhood Clinics (Organization), a California nonprofit corporation, as of June 30, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2010, and changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

Stoltey & Associates

November 4, 2010

SANTA BARBARA NEIGHBORHOOD CLINICS
Statement of Financial Position
June 30, 2010
(with 2009 comparative totals)

Assets	2010	2009
Current Assets:		
Cash and equivalents	\$ 1,639,398	\$ 2,026,137
Accounts and grants receivable (Note 2)	807,918	847,175
Prepaid expenses	17,517	12,752
Supplies inventory	<u>64,419</u>	<u>104,450</u>
Total Current Assets	<u>2,529,252</u>	<u>2,990,514</u>
Contributions receivable under charitable remainder trusts (Note 3)	576,924	553,973
Property and equipment, net (Note 4)	<u>3,288,609</u>	<u>3,287,828</u>
Total Assets	<u>\$ 6,394,785</u>	<u>\$ 6,832,315</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 163,772	\$ 179,396
Accrued expenses	418,569	526,297
Current portion of long-term debt (Note 6)	51,548	25,004
Lines of Credit (Note 5)	<u>-</u>	<u>400,000</u>
Total Current Liabilities	633,889	1,130,697
Long-term debt (Note 6)	<u>190,994</u>	<u>243,817</u>
Total Liabilities	<u>824,883</u>	<u>1,374,514</u>
Net Assets:		
Unrestricted	4,860,368	4,995,551
Temporarily restricted (Note 7)	485,534	238,250
Permanently restricted (Note 7)	<u>224,000</u>	<u>224,000</u>
Total Net Assets	<u>5,569,902</u>	<u>5,457,801</u>
Total Liabilities and Net Assets	<u>\$ 6,394,785</u>	<u>\$ 6,832,315</u>

The accompanying notes are an integral part of this financial statement.

SANTA BARBARA NEIGHBORHOOD CLINICS
Statement of Activities
Year Ended June 30, 2010
(with 2009 comparative totals)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2010</u>	<u>Total 2009</u>
Public Support:					
Special events, gross	\$ 103,330	\$ -	\$ -	\$ 103,330	\$ 135,721
Less: Direct costs	(43,176)	-	-	(43,176)	(26,126)
Special events, net	60,154	-	-	60,154	109,595
Contributions	1,302,598	462,583	-	1,765,181	1,666,810
Total Public Support	<u>1,362,752</u>	<u>462,583</u>	<u>-</u>	<u>1,825,335</u>	<u>1,776,405</u>
Revenue:					
Program service fees	5,222,015	-	-	5,222,015	4,968,661
Interest income	44,166	-	-	44,166	30,274
Change in value of charitable remainder trust	-	22,951	-	22,951	(17,704)
Gain on disposal of assets	(1,114)	-	-	(1,114)	-
Miscellaneous income	16,125	-	-	16,125	4,922
Total Revenue	<u>5,281,192</u>	<u>22,951</u>	<u>-</u>	<u>5,304,143</u>	<u>4,986,153</u>
Total Public Support, Grants and Revenue	<u>6,643,944</u>	<u>485,534</u>	<u>-</u>	<u>7,129,478</u>	<u>6,762,558</u>
Net Assets released from restriction	<u>238,250</u>	<u>(238,250)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenses:					
Program Services	5,727,443	-	-	5,727,443	5,951,641
Supporting services:					
Management and general	1,101,806	-	-	1,101,806	1,183,238
Fundraising	188,128	-	-	188,128	195,492
Total Supporting Services	<u>1,289,934</u>	<u>-</u>	<u>-</u>	<u>1,289,934</u>	<u>1,378,730</u>
Total Expenses and losses	<u>7,017,377</u>	<u>-</u>	<u>-</u>	<u>7,017,377</u>	<u>7,330,371</u>
Increase (decrease) in Net Assets	(135,183)	247,284	-	112,101	(567,813)
Net Assets at Beginning of Year	<u>4,995,551</u>	<u>238,250</u>	<u>224,000</u>	<u>5,457,801</u>	<u>6,025,614</u>
Net Assets at End of Year	<u>\$ 4,860,368</u>	<u>\$ 485,534</u>	<u>\$ 224,000</u>	<u>\$ 5,569,902</u>	<u>\$ 5,457,801</u>

The accompanying notes are an integral part of this financial statement.

SANTA BARBARA NEIGHBORHOOD CLINICS
Statement of Cash Flows
For The Year Ended June 30, 2010
(with 2009 comparative totals)

	<u>2010</u>	<u>2009</u>
<u>Cash Flows From Operating Activities</u>		
Change in net assets	\$ 112,101	\$ (567,813)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	186,740	169,175
Change in value of charitable remainder trusts	(22,951)	17,704
Contributions restricted for long term use	-	(224,000)
(Increase)/decrease in:		
Accounts and grants receivable	39,257	(622,639)
Prepaid expenses	(4,765)	(2,169)
Inventories	40,031	164,535
Increase/(decrease) in:		
Line of credit	(400,000)	400,000
Accounts payable	(15,624)	65,360
Accrued expenses	(107,728)	208,773
	<u>(172,939)</u>	<u>(391,074)</u>
Net Cash From Operating Activities		
<u>Cash Flows From Investing Activities</u>		
Purchase of fixed assets	<u>(187,521)</u>	<u>(119,443)</u>
Net Cash From Investing Activities	<u>(187,521)</u>	<u>(119,443)</u>
<u>Cash Flows From Financing Activities</u>		
Principle payments on notes payable	(26,279)	(23,408)
Contributions restricted for long term use	<u>-</u>	<u>224,000</u>
Net Cash From Financing Activities	(26,279)	200,592
Net Change in Cash	(386,739)	(309,925)
Cash at the Beginning of Year	<u>2,026,137</u>	<u>2,336,062</u>
Cash at the End of Year	<u>\$ 1,639,398</u>	<u>\$ 2,026,137</u>
<u>Supplemental Information:</u>		
Cash paid for interest	<u>\$ 22,954</u>	<u>\$ 29,681</u>

The accompanying notes are an integral part of this financial statement.

SANTA BARBARA NEIGHBORHOOD CLINICS
Statement of Functional Expenses
For The Year Ended June 30, 2010
(with 2009 comparative totals)

	Supporting Services				2010 Total	2009 Total
	Program Services	Management and General	Fundraising	Total		
Salaries	\$ 3,588,578	\$ 659,216	\$ 117,873	\$ 777,089	\$ 4,365,667	\$ 4,410,672
Payroll taxes	327,473	60,156	10,756	70,913	398,386	333,940
Employee benefits	344,824	63,344	11,326	74,670	419,494	369,914
Total Salaries and Related Expenses	4,260,876	782,716	139,956	922,671	5,183,547	5,114,526
Employee professional development	10,079	1,851	331	2,182	12,261	24,903
Contract labor	-	-	-	-	-	5,545
Insurance	49,810	9,150	1,636	10,786	60,596	48,162
Information Technology	-	49,685	-	49,685	49,685	89,932
Operating expenses	913,055	167,727	29,991	197,717	1,110,772	1,322,786
Occupancy	257,671	47,334	8,464	55,797	313,468	409,904
Outside services	61,463	11,291	2,019	13,309	74,772	59,429
Other expenses	20,991	3,856	689	4,545	25,536	86,009
Depreciation	153,500	28,198	5,042	33,240	186,740	169,175
Total Expenses	\$ 5,727,443	\$ 1,101,806	\$ 188,128	\$ 1,289,934	\$ 7,017,377	\$ 7,330,371

The accompanying notes are an integral part of this financial statement.

SANTA BARBARA NEIGHBORHOOD CLINICS
Notes to Financial Statements
June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Santa Barbara Neighborhood Clinics (“Clinics”) is organized as a nonprofit corporation to provide health care services to indigent and low income people in the Santa Barbara area. Its programs are summarized as follows:

Medical Clinics – provides primary health services, dental services, contraceptive and pregnancy testing, and HIV testing and counseling services.

Medical programs – provides HIV testing, counseling services to substance abusing pregnant and parenting women with young children, smoking cessation, breast and cervical cancer, and other medical programs.

A significant amount of revenue is received from state and local government contracts.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the report period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Clinics considers all highly liquid instruments purchased with a maturity of less than three months to be cash equivalents.

Property and Equipment

Property and equipment are recorded as cost and are being depreciated on the straight-line method, generally over their useful lives as follows:

Furniture and equipment	3 to 5 years
Building and improvements	30 to 40 years

Net Patient Service Revenue

Patient service revenue is reported at the estimated realizable amounts from patients, third-party payors, and others for services rendered.

SANTA BARBARA NEIGHBORHOOD CLINICS

Notes to Financial Statements

June 30, 2010

Premium Revenue

The Clinics has an agreement with the Santa Barbara Regional Health Authority (“SBRHA”) to provide medical services to certain persons assigned to it. Under this agreement, the Clinics receive monthly capitation payments based on the number of persons assigned, regardless of services actually performed.

Donor Restricted Support

The Clinics reports its financial statements in accordance with Statement of Financial Accounting Standards Board (SFAS) No. 117, *Financial Statements of Non-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes based on the existence and nature of donor imposed restrictions on net assets:

Unrestricted net assets generally result from unrestricted contributions and interest and dividends less expenses incurred in providing services and fund-raising and other administrative expenses.

Temporarily restricted net assets are classified as such based on donor stipulations that they be used in a later period or for a specific purpose.

Permanently restricted net assets are classified as such based on donor-imposed restrictions prohibiting the Clinics from using the asset. Any interest, dividends and unrealized gains or losses recognized on such assets are either reported as an increase to permanently restricted net assets, temporarily restricted net assets or unrestricted net assets in conformance with any donor imposed restrictions.

Income Taxes

The Clinics has been determined to be a nonprofit Corporation exempt from Federal income taxes under IRC501(c)(3) and State income taxes under Revenue and Taxation Code Section 23701(d).

Reclassifications

Certain reclassifications have been made to the 2009 statements to conform to 2010 financial statements presentation.

NOTE 2 ACCOUNTS AND GRANTS RECEIVABLE

Accounts and grants receivable are expected to be realized in the following periods:

In one year or less

\$ 807,918

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Notes to Financial Statements
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NOTE 3 CHARITABLE REMAINDER TRUST

The charitable remainder trust is a time restricted gift not available to the Clinics until after the death of the donors, who, while living, receive an annual payout from the trust based on a fixed percentage of the market value of the invested funds on January 1 of each year. The present value of the deferred gift is computed using published IRS actuarial tables and discount rates.

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2010</u>	<u>2009</u>
Land	\$ 1,276,542	\$ 1,276,542
Buildings	2,561,486	2,409,894
Leasehold improvements	34,387	34,387
Construction in process	-	21,115
Furniture and equipment	<u>1,296,865</u>	<u>1,244,066</u>
	5,169,280	4,866,561
Less: Accumulated depreciation	<u>(1,880,671)</u>	<u>(1,698,176)</u>
Net property and equipment	<u>\$3,288,609</u>	<u>\$3,287,828</u>

NOTE 5 LINES OF CREDIT

The Clinics maintain a line of credit with Montecito Bank & Trust. The line of credit has a credit limit of \$400,000 and matures November 1, 2012. The line of credit carries an interest rate of 5.75% per annum. There was no balance on this line of credit at June 30, 2010.

NOTE 6 LONG-TERM DEBT

Long-term debt is comprised as follows:

	<u>2010</u>	<u>2010</u>
Note payable to an individual, secured by real property, with interest of 6%. The loan is payable in full on December 31, 2011	\$ 25,000	\$ 25,000
California Health Facilities Financing Authority with interest of 3%. The loan is payable over 15 years and will be paid in full on November 1, 2017.		

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Notes to Financial Statements

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The loan is secured by real property and gross revenues of the Clinics.	<u>217,542</u>	<u>243,821</u>
	242,542	341,117
Less current portion	<u>(51,548)</u>	<u>(25,004)</u>
Long-term debt	<u>\$ 190,994</u>	<u>\$ 267,225</u>

Maturities of long-term debt are as follows:

2011	\$ 51,548	
2012	27,355	
2013	28,187	
2014	29,045	
2015	29,928	
Thereafter	<u>76,479</u>	
	<u>\$ 242,542</u>	

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

	<u>2010</u>	<u>2009</u>
For future periods	<u>\$ 485,534</u>	<u>\$ 238,250</u>

Permanently restricted net assets consist of gifts to the Clinics' endowment. The earnings from the endowment can be used in the general operation of the clinic.

NOTE 8 BENEFIT PLAN

The Clinics maintains a 403(b) retirement plan for its employees meeting eligibility criteria. Each participant may elect to contribute a percentage of their annual compensation to the plan. The Clinics, at its discretion, may make contributions to the plan; however, none were made during 2010 or 2009.

NOTE 9 CONCENTRATION OF CREDIT RISK

The Clinics maintain cash in money market accounts that are not federally insured and in bank deposit accounts, which, at times, may exceed federally insured limits. The Clinics have not experienced losses in such accounts.

SANTA BARBARA NEIGHBORHOOD CLINICS

Notes to Financial Statements

June 30, 2010

NOTE 10 OBLIGATIONS UNDER OPERATING LEASE

In 2008 the Clinics entered into an operating lease agreement with the County of Santa Barbara to lease medical clinic, health promotion center and clinic administration space. The lease agreement requires an annual rent payment of \$151,086 paid semi-annually, in arrears on December 1st and June 1st of each year. The base rent is subject to annual adjustment based on the consumer price index change for the immediate preceding period. The lease expires in 2018.

The Clinics' obligation under the lease for the next five years and thereafter is as follows:

2011	\$151,086
2012	\$151,086
2013	\$151,086
2014	\$151,086
2015	\$151,086
Thereafter	\$302,172

NOTE 11 ENDOWMENT

The Clinic's endowment has been established for a variety of program and scholarship purposes. Its endowment consists of donor-restricted endowment funds. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Clinic has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The Clinic classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Clinic in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Clinic considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Clinic and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments

SANTA BARBARA NEIGHBORHOOD CLINICS
Notes to Financial Statements
June 30, 2010

- (6) Other resources of the Clinic
- (7) The investment policies of the Clinic.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Clinic to retain as a fund of perpetual duration. In accordance with GAAP, there were no deficiencies of this nature as of June 30, 2010.

Return Objectives and Risk Parameters

The Clinic has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Clinic must hold in perpetuity.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, The Clinic relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Clinic targets a diversified asset allocation that places a greater emphasis on equity mutual funds investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Annual distributions shall be a maximum of five (5) percent of the net asset value from the end of the previous four calendar quarters. Larger distributions may be made only in emergency circumstances, as declared by two-thirds of the Clinic's Board of Directors, and only after the Committee Members have been convened to review the situation and authorize the release of requested funds.

Endowment net asset composition by type of fund as of June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment Funds	\$ -	\$ -	\$ 224,000	\$ 224,000

Changes in Endowment Net Assets

Changes in endowment net assets for the Fiscal Year Ended June 30, 2010 are as follows:

SANTA BARBARA NEIGHBORHOOD CLINICS

Notes to Financial Statements

June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ -	\$ 224,000	\$ 224,000
Investment return:				
Net depreciation (realized and unrealized)	-	-	-	-
Investment income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investment return	-	-	-	-
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment net assets, ending of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 224,000</u>	<u>\$ 224,000</u>