



SANTA BARBARA NEIGHBORHOOD CLINICS

FINANCIAL STATEMENTS

June 30, 2007



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, 2007, 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. Information for the year ended June 30, 2006 is presented for comparative purposes only and was extracted from financial statements for that year, which were examined by other auditors whose report dated February 23, 2007 expressed an unqualified opinion.

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, 2007, 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.

July 10, 2008

Stoltey & Associates

SANTA BARBARA NEIGHBORHOOD CLINICS
Statement of Financial Position
June 30, 2007
(with 2006 comparative totals)

Assets	2007	2006
Current Assets:		
Cash and equivalents	\$ 305,193	\$ 284,263
Accounts and grants receivable	519,572	630,329
Pledges receivable (Note 2)	-	45,000
Prepaid expenses	12,061	17,777
Supplies inventory	<u>121,378</u>	<u>64,834</u>
Total Current Assets	<u>958,204</u>	<u>1,042,203</u>
Contributions receivable under charitable remainder trusts (Note 3)	677,628	617,184
Other assets	-	3,779
Property and equipment, net (Note 4)	<u>4,567,854</u>	<u>3,802,565</u>
Total Assets	<u>\$ 6,203,686</u>	<u>\$ 5,465,731</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 144,692	\$ 143,123
Accrued expenses	258,590	198,217
Current portion of long-term debt (Note 6)	45,774	48,936
Lines of Credit (Note 5)	<u>175,042</u>	<u>156,910</u>
Total Current Liabilities	624,098	547,186
Long-term debt (Note 6)	<u>365,048</u>	<u>292,181</u>
Total Liabilities	<u>989,146</u>	<u>839,367</u>
Net Assets:		
Unrestricted	4,536,912	3,521,524
Temporarily restricted (Note 7)	<u>677,628</u>	<u>1,104,840</u>
Total Net Assets	<u>5,214,540</u>	<u>4,626,364</u>
Total Liabilities and Net Assets	<u>\$ 6,203,686</u>	<u>\$ 5,465,731</u>

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

SANTA BARBARA NEIGHBORHOOD CLINICS
Statement of Activities
Year Ended June 30, 2007
(with 2006 comparative totals)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2007</u>	<u>Total 2006</u>
Public Support:				
Special events, gross	\$ 105,005	\$ -	\$ 105,005	\$ 91,125
Less: Direct costs	(23,063)	-	(23,063)	(23,978)
Special events, net	81,942	-	81,942	67,147
Contributions	1,989,168	-	1,989,168	908,121
Total Public Support	<u>2,071,110</u>	<u>-</u>	<u>2,071,110</u>	<u>975,268</u>
Revenue:				
Program service fees	3,573,154	-	3,573,154	2,923,907
Rental income	1,400	-	1,400	11,417
Interest income	1,660	-	1,660	6,084
Change in value of charitable remainder trust	-	60,444	60,444	44,161
Loss on retirement of assets	-	-	-	(3,592)
Miscellaneous income	8,338	-	8,338	17,030
Total Revenue	<u>3,584,552</u>	<u>60,444</u>	<u>3,644,996</u>	<u>2,999,007</u>
Total Public Support, Grants and Revenue	<u>5,655,662</u>	<u>60,444</u>	<u>5,716,106</u>	<u>3,974,275</u>
Net Assets released from restriction	<u>487,656</u>	<u>(487,656)</u>	<u>-</u>	<u>-</u>
Expenses:				
Program Services	4,102,344	-	4,102,344	3,125,995
Supporting services:				
Management and general	871,748	-	871,748	677,334
Fundraising	153,838	-	153,838	97,044
Total Supporting Services	<u>1,025,586</u>	<u>-</u>	<u>1,025,586</u>	<u>774,378</u>
Total Expenses and losses	<u>5,127,930</u>	<u>-</u>	<u>5,127,930</u>	<u>3,900,373</u>
Increase (decrease) in Net Assets	1,015,388	(427,212)	588,176	73,902
Net Assets at Beginning of Year	<u>3,521,524</u>	<u>1,104,840</u>	<u>4,626,364</u>	<u>4,552,462</u>
Net Assets at End of Year	<u>\$ 4,536,912</u>	<u>\$ 677,628</u>	<u>\$ 5,214,540</u>	<u>\$ 4,626,364</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, 2007
(with 2006 comparative totals)

	<u>2007</u>	<u>2006</u>
<u>Cash Flows From Operating Activities</u>		
Change in net assets	\$ 588,176	\$ 73,902
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	177,504	199,962
Change in value of charitable remainder trusts	(60,444)	(44,161)
Loss on retirement of assets	-	3,592
(Increase)/decrease in:		
Accounts and grants receivable	110,757	(15,601)
Pledges receivable	45,000	(10,368)
Prepaid expenses	9,495	12,695
Inventories	(56,544)	(38,017)
Increase/(decrease) in:		
Line of credit	18,132	(164,202)
Accounts payable	1,569	7,786
Accrued expenses	60,373	(2,464)
	<u>894,018</u>	<u>23,124</u>
Net Cash From Operating Activities		
<u>Cash Flows From Investing Activities</u>		
Proceeds from sale of investments	-	178,742
Purchase of fixed assets	(942,793)	(30,076)
	<u>(942,793)</u>	<u>148,666</u>
Net Cash From Investing Activities		
<u>Cash Flows From Financing Activities</u>		
Principle payments on notes payable	(68,295)	(23,339)
Proceeds from issuance of notes payable	138,000	-
Collection of contributions restricted for long-term use	-	36,000
	<u>69,705</u>	<u>12,661</u>
Net Cash From Financing Activities		
Net Change in Cash	20,930	184,451
Cash at the Beginning of Year	<u>284,263</u>	<u>99,812</u>
Cash at the End of Year	<u>\$ 305,193</u>	<u>\$ 284,263</u>
<u>Supplemental Information:</u>		
Cash paid for interest	<u>\$ 25,557</u>	<u>\$ 20,569</u>
Notes payable paid by utilizing bank loan	<u>\$ -</u>	<u>\$ 205,000</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, 2007
(with 2006 comparative totals)

	Supporting Services				2007 Total	2006 Total
	Program Services	Management and General	Fundraising	Total		
Salaries	\$ 2,464,535	\$ 523,714	\$ 92,420	\$ 616,134	\$ 3,080,669	\$ 2,398,560
Payroll taxes	182,652	38,814	6,849	45,663	228,315	211,405
Employee benefits	201,854	42,894	7,570	50,464	252,318	294,131
Total Salaries and Related Expenses	2,849,042	605,421	106,839	712,260	3,561,302	2,904,096
Employee professional development	10,743	2,283	403	2,686	13,429	57,352
Contract labor	22,224	4,723	833	5,556	27,780	9,197
Insurance	35,833	7,614	1,344	8,958	44,791	35,750
Operating expenses	798,998	169,787	29,962	199,750	998,748	426,101
Occupancy	145,086	30,831	5,441	36,272	181,358	145,644
Outside services	71,737	15,244	2,690	17,934	89,671	105,360
Other expenses	26,678	5,669	1,000	6,669	33,347	16,911
Depreciation	142,003	30,176	5,325	35,501	177,504	199,962
Total Expenses	\$ 4,102,344	\$ 871,748	\$ 153,838	\$ 1,025,586	\$ 5,127,930	\$ 3,900,373

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

SANTA BARBARA NEIGHBORHOOD CLINICS
Notes to Financial Statements
June 30, 2007

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, 2007

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 receives monthly capitation payments based on the number of persons assigned, regardless of services actually performed.

Donor Restricted Support

Contributions are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from 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 2006 statements to conform to 2007 financial statements presentation.

NOTE 2 PLEDGES RECEIVABLE

Unconditional promises to give are expected to be realized in the following periods:

	<u>2007</u>	<u>2006</u>
In one year or less	-	\$ 45,000

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.

SANTA BARBARA NEIGHBORHOOD CLINICS
Notes to Financial Statements
June 30, 2007

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2007</u>	<u>2006</u>
Land	\$ 1,299,042	\$ 1,299,042
Buildings	3,983,647	3,168,614
Furniture and equipment	1,111,042	977,155
Construction in process	<u>-</u>	<u>30,081</u>
	6,393,731	5,450,937
Less: Accumulated depreciation	<u>(1,825,877)</u>	<u>(1,648,372)</u>
Net property and equipment	<u>\$4,567,854</u>	<u>\$ 3,802,565</u>

NOTE 5 LINES OF CREDIT

The Clinics maintain two lines of credit with Montecito Bank & Trust. The first credit line has a credit limit of \$150,000 and matures April 5, 2008. There were no borrowings on this line at June 30, 2007. The other line of credit has a credit limit of \$200,000 and matures November 1, 2012. The balance on this line of credit at June 30, 2007 was \$137,042. Both lines of credit carry an interest rate of 8.75% per annum.

The Clinics has a line of credit with Santa Barbara Bank & Trust in the amount of \$50,000. The line bears interest at 9.25% interest and expires October 2008. There was \$38,000 of borrowings on the line at June 30, 2007.

NOTE 6 LONG-TERM DEBT

Long-term debt is comprised as follows:

	<u>2007</u>	<u>2006</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. The loan is secured by real property and gross revenues of the Clinics.	292,042	316,117
Note payable to Montecito Bank and Trust with interest of 9% per annum. The loan is payable in monthly interest		

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Notes to Financial Statements
June 30, 2007

and principle payments. The loan matures April 5, 2012.	87,780	-
Note payable to an individual current payable at 4%, interest only.	<u>6,000</u>	<u>-</u>
	410,822	341,117
Less current portion	<u>(45,774)</u>	<u>(48,936)</u>
Long-term debt	<u>\$ 365,048</u>	<u>\$ 292,181</u>

Maturities of long-term debt are as follows:

2008	\$ 45,774	
2009	41,967	
2010	44,318	
2011	46,842	
2012	68,816	
Thereafter	<u>163,105</u>	
	<u>\$ 410,822</u>	

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2007</u>	<u>2006</u>
Building and improvements	\$ -	\$ 167,641
Program activities	-	320,015
For future periods	<u>677,628</u>	<u>617,184</u>
	<u>\$ 677,628</u>	<u>\$ 1,104,840</u>

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 2007 or 2006.

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, 2007

NOTE 10 PRIOR YEAR INFORMATION

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Clinics' financial statements for the year ended June 30, 2006, from which the summarized information was derived.

NOTE 11 SUBSEQUENT EVENT

The Clinics has entered into a contract with the County of Santa Barbara to sell the property located in Isla Vista. Under the sales agreement, the Clinics will lease a portion of the sold building from the County of Santa Barbara.