



SANTA BARBARA NEIGHBORHOOD CLINICS

FINANCIAL STATEMENTS

June 30, 2008

(with Independent Auditors' Report Thereon)



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, 2008, 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, 2008, 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

February 26, 2009
Los Olivos, California

SANTA BARBARA NEIGHBORHOOD CLINICS
Statement of Financial Position
June 30, 2008
(with 2007 comparative totals)

Assets	2008	2007
Current Assets:		
Cash and equivalents	\$ 2,336,062	\$ 305,193
Accounts and grants receivable (Note 2)	224,536	519,572
Prepaid expenses	10,583	12,061
Supplies inventory	<u>268,985</u>	<u>121,378</u>
Total Current Assets	<u>2,840,166</u>	<u>958,204</u>
Contributions receivable under charitable remainder trusts (Note 3)	571,677	677,628
Property and equipment, net (Note 4)	<u>3,337,560</u>	<u>4,567,854</u>
Total Assets	<u>\$ 6,749,403</u>	<u>\$ 6,203,686</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 114,036	\$ 144,692
Accrued expenses	317,524	258,590
Current portion of long-term debt (Note 6)	25,004	45,774
Lines of Credit (Note 5)	<u>-</u>	<u>175,042</u>
Total Current Liabilities	456,564	624,098
Long-term debt (Note 6)	<u>267,225</u>	<u>365,048</u>
Total Liabilities	<u>723,789</u>	<u>989,146</u>
Net Assets:		
Unrestricted	5,229,937	4,536,912
Temporarily restricted (Note 7)	571,677	677,628
Permanently restricted (Note 7)	<u>224,000</u>	<u>-</u>
Total Net Assets	<u>6,025,614</u>	<u>5,214,540</u>
Total Liabilities and Net Assets	<u>\$ 6,749,403</u>	<u>\$ 6,203,686</u>

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

SANTA BARBARA NEIGHBORHOOD CLINICS
Statement of Activities
Year Ended June 30, 2008
(with 2007 comparative totals)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2008</u>	<u>Total 2007</u>
Public Support:					
Special events, gross	\$ 115,005	\$ -	\$ -	\$ 115,005	\$ 105,005
Less: Direct costs	(29,409)	-	-	(29,409)	(23,063)
Special events, net	85,596	-	-	85,596	81,942
Contributions	986,502	-	224,000	1,210,502	1,989,168
Total Public Support	<u>1,072,098</u>	<u>-</u>	<u>224,000</u>	<u>1,296,098</u>	<u>2,071,110</u>
Revenue:					
Program service fees	4,357,970	-	-	4,357,970	3,573,154
Rental income	-	-	-	-	1,400
Interest income	17,909	-	-	17,909	1,660
Change in value of charitable remainder trust	-	(105,951)	-	(105,951)	60,444
Gain on disposal of assets	1,414,748	-	-	1,414,748	-
Miscellaneous income	(132,353)	-	-	(132,353)	8,338
Total Revenue	<u>5,658,274</u>	<u>(105,951)</u>	<u>-</u>	<u>5,552,323</u>	<u>3,644,996</u>
Total Public Support, Grants and Revenue	<u>6,730,372</u>	<u>(105,951)</u>	<u>224,000</u>	<u>6,848,421</u>	<u>5,716,106</u>
Net Assets released from restriction	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenses:					
Program Services	4,980,811	-	-	4,980,811	4,102,344
Supporting services:					
Management and general	881,453	-	-	881,453	871,748
Fundraising	175,083	-	-	175,083	153,838
Total Supporting Services	<u>1,056,536</u>	<u>-</u>	<u>-</u>	<u>1,056,536</u>	<u>1,025,586</u>
Total Expenses and losses	<u>6,037,347</u>	<u>-</u>	<u>-</u>	<u>6,037,347</u>	<u>5,127,930</u>
Increase (decrease) in Net Assets	693,025	(105,951)	224,000	811,074	588,176
Net Assets at Beginning of Year	4,536,912	677,628	-	5,214,540	4,626,364
Net Assets at End of Year	<u>\$ 5,229,937</u>	<u>\$ 571,677</u>	<u>\$ 224,000</u>	<u>\$ 6,025,614</u>	<u>\$ 5,214,540</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, 2008
(with 2007 comparative totals)

	2008	2007
<u>Cash Flows From Operating Activities</u>		
Change in net assets	\$ 811,074	\$ 588,176
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	201,564	177,504
Change in value of charitable remainder trusts	105,951	(60,444)
Contributions restricted for long term use	(224,000)	-
Gain on sale of fixed assets	(1,414,748)	-
(Increase)/decrease in:		
Accounts and grants receivable	295,036	110,757
Pledges receivable	-	45,000
Prepaid expenses	1,478	9,495
Inventories	(147,607)	(56,544)
Increase/(decrease) in:		
Line of credit	(175,042)	18,132
Accounts payable	(30,656)	1,569
Accrued expenses	58,934	60,373
	<u>(518,016)</u>	<u>894,018</u>
 <u>Cash Flows From Investing Activities</u>		
Proceeds from sale of fixed assets	2,512,561	-
Purchase of fixed assets	(69,083)	(942,793)
	<u>2,443,478</u>	<u>(942,793)</u>
 <u>Cash Flows From Financing Activities</u>		
Principle payments on notes payable	(118,593)	(68,295)
Contributions restricted for long term use	224,000	-
Proceeds from issuance of notes payable	-	138,000
	<u>105,407</u>	<u>69,705</u>
 Net Change in Cash	2,030,869	20,930
Cash at the Beginning of Year	305,193	284,263
	<u>\$ 2,336,062</u>	<u>\$ 305,193</u>
 <u>Supplemental Information:</u>		
Cash paid for interest	\$ 39,420	\$ 25,557
Notes payable paid by utilizing bank loan	\$ -	\$ -

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, 2008
(with 2007 comparative totals)

	Supporting Services			Total	2008 Total	2007 Total
	Program Services	Management and General	Fundraising			
Salaries	\$ 3,170,628	\$ 561,105	\$ 111,452	\$ 672,558	\$ 3,843,186	\$ 3,080,669
Payroll taxes	251,000	44,419	8,823	53,242	304,242	228,315
Employee benefits	229,814	40,670	8,078	48,749	278,563	252,318
Total Salaries and Related Expenses	3,651,443	646,195	128,354	774,548	4,425,991	3,561,302
Employee professional development	14,389	2,546	506	3,052	17,441	13,429
Contract labor	25,530	4,518	897	5,416	30,946	27,780
Insurance	36,802	6,513	1,294	7,807	44,609	44,791
Operating expenses	746,329	132,078	26,235	158,312	904,641	998,748
Occupancy	185,802	32,881	6,531	39,413	225,215	181,358
Outside services	117,846	20,855	4,142	24,998	142,844	89,671
Other expenses	36,379	6,438	1,279	7,717	44,096	33,347
Depreciation	166,290	29,428	5,845	35,274	201,564	177,504
Total Expenses	\$ 4,980,811	\$ 881,453	\$ 175,083	\$ 1,056,536	\$ 6,037,347	\$ 5,127,930

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

SANTA BARBARA NEIGHBORHOOD CLINICS
Notes to Financial Statements
June 30, 2008

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, 2008

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

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 2007 statements to conform to 2008 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

\$ 224,536

SANTA BARBARA NEIGHBORHOOD CLINICS
Notes to Financial Statements
June 30, 2008

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>2008</u>	<u>2007</u>
Land	\$ 1,276,542	\$ 1,299,042
Buildings	2,409,894	3,983,647
Furniture and equipment	<u>1,180,125</u>	<u>1,111,042</u>
	4,866,561	5,450,937
Less: Accumulated depreciation	<u>(1,529,001)</u>	<u>(1,648,372)</u>
Net property and equipment	<u>\$3,337,560</u>	<u>\$4,567,854</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 \$200,000 and matures November 1, 2012. There was no balance on this line of credit at June 30, 2008. The line of credit carries 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 no balance on this line of credit at June 30, 2008.

NOTE 6 LONG-TERM DEBT

Long-term debt is comprised as follows:

	<u>2008</u>	<u>2007</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.		

SANTA BARBARA NEIGHBORHOOD CLINICS
Notes to Financial Statements
June 30, 2008

The loan is secured by real property and gross revenues of the Clinics.	267,229	292,042
Note payable to an individual payable at 4% interest only.	<u> -</u>	<u> 6,000</u>
	292,229	341,117
Less current portion	<u>(25,004)</u>	<u>(45,774)</u>
Long-term debt	<u>\$ 267,225</u>	<u>\$ 365,048</u>

Maturities of long-term debt are as follows:

2009	\$ 25,004	
2010	25,764	
2011	51,548	
2012	27,355	
2013	28,187	
Thereafter	<u>134,371</u>	
	<u>\$ 292,229</u>	

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2008</u>	<u>2007</u>
For future periods	<u>\$ 571,677</u>	<u>\$ 677,628</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 2008 or 2007.

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, 2008

NOTE 10 OBLIGATION 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:

2009	\$151,086
2010	\$151,086
2011	\$151,086
2012	\$151,086
2013	\$151,086
Thereafter	\$604,344