

**INDIAN HEALTH CENTER OF  
SANTA CLARA VALLEY**  
(A California Nonprofit Organization)

Independent Auditors' Report  
Financial Statements  
Schedule of Expenditures of Federal Awards  
Internal Control and Compliance  
Years Ended June 30, 2012 and 2011

**INDIAN HEALTH CENTER OF SANTA CLARA VALLEY**  
**(A California Nonprofit Organization)**  
**INDEPENDENT AUDITORS' REPORT**  
**FINANCIAL STATEMENTS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**INTERNAL CONTROL AND COMPLIANCE**  
**JUNE 30, 2012 and 2011**

---

**TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditors' Report.....	1
Financial Statements	
Statements of Financial Position.....	2
Statements of Activities.....	3
Schedule of Functional Expenses.....	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6 – 18
Schedule of Expenditures of Federal Awards.....	19
Independent Auditors 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.....	20 – 21
Independent Auditors Report on Compliance with Requirements That Could Have a Direct And Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.....	22 – 23
Schedule of Findings and Questioned Costs.....	24 – 25
Status of Prior Year Findings	26



## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Indian Health Center of Santa Clara Valley  
(A California Nonprofit Organization)  
San Jose, California

We have audited the accompanying statements of financial position of Indian Health Center of Santa Clara Valley, a California nonprofit organization (the "Center") as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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. Those standards require that we plan and perform the audit 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 Indian Health Center of Santa Clara Valley at June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012 on our consideration of the Center's 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also 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 information is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read 'Sabocor &amp; Co., LLP', written in a cursive style.

Los Angeles, California  
September 27, 2012

**INDIAN HEALTH CENTER OF SANTA CLARA VALLEY**  
**(A California Nonprofit Organization)**

**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2012**  
**(With Comparative Totals for 2011)**

	<u>2012</u>	<u>[2011 Totals (Memorandum Only)]</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,783,404	\$ 2,993,340
Investments (Note 3)	2,088,297	1,832,028
Accounts receivable, net (Note 4)	634,981	609,036
Grants receivable, net (Note 5)	1,664,825	1,219,827
Deposits and prepaid expenses	<u>92,380</u>	<u>38,990</u>
<b>Total current assets</b>	<b>7,263,887</b>	<b>6,693,221</b>
Property and equipment - net (Notes 6, 9 and 10)	<u>6,712,351</u>	<u>5,298,233</u>
<b>Total assets</b>	<b>\$ 13,976,238</b>	<b>\$ 11,991,454</b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 722,581	\$ 144,206
Accrued salaries and fringe benefits (Note 8)	29,793	93,253
Accrued personal time off (Note 7)	437,658	365,027
Deposits held on behalf of others	-	3,600
Current portion of note payable (Note 9)	<u>50,377</u>	<u>46,911</u>
<b>Total current liabilities</b>	<b>1,240,409</b>	<b>652,997</b>
Long-term note payable (Note 9)	<u>81,024</u>	<u>338,437</u>
<b>Total liabilities</b>	<b>1,321,433</b>	<b>991,434</b>
 <b>Unrestricted net assets (Note 10)</b>	 <u>12,654,805</u>	 <u>11,000,020</u>
<b>Total liabilities and net assets</b>	<b>\$ 13,976,238</b>	<b>\$ 11,991,454</b>

*See accompanying notes to financial statements.*

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY  
(A California Nonprofit Organization)

STATEMENTS OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012  
(With Comparative Totals for 2011)

	Unrestricted	Temporarily Restricted	Total	
			2012	2011 Totals [Memorandum Only]
<b>Revenues, gains and support:</b>				
Government grant revenues (Note 10)	\$ 5,872,235		\$ 5,872,235	\$ 5,158,019
Service revenues, net	5,179,278		5,179,278	4,875,375
Donations and contributions (Note 17)	503,142		503,142	549,171
Interest income	15,607		15,607	47,774
Rental income (Note 16)	10,800		10,800	28,800
Fund raising revenues	8,782		8,782	16,123
Miscellaneous income	20,721		20,721	18,728
<b>Total revenues, gains and support</b>	<b>11,610,565</b>	<b>-</b>	<b>11,610,565</b>	<b>10,693,990</b>
<b>Expenses:</b>				
Medical services	4,470,134		4,470,134	3,822,220
Dental services	1,090,052		1,090,052	973,641
Nutrition services	898,062		898,062	861,176
Counseling services	1,795,276		1,795,276	1,690,514
Community wellness services	962,401		962,401	1,027,270
Management and general	607,242		607,242	825,785
Building and equipment	132,613		132,613	149,819
<b>Total expenses</b>	<b>9,955,780</b>	<b>-</b>	<b>9,955,780</b>	<b>9,350,425</b>
Change in net assets	1,654,785	-	1,654,785	1,343,565
Net assets at beginning of year	11,000,020		11,000,020	9,656,455
Net assets at end of year	<u>\$ 12,654,805</u>	<u>\$ -</u>	<u>\$ 12,654,805</u>	<u>\$ 11,000,020</u>

*See accompanying notes to financial statements.*

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY  
(A California Nonprofit Organization)

SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2012  
(With Comparative Totals for 2011)

	Program Services						Support Services			Total	
	Medical Services	Dental Services	Nutrition Services	Counseling Services	Community Wellness Services	Total Program Services	Management and General	Building and Equipment	Total Support Services	2012	2011 Totals [Memorandum Only]
Salaries (Note 7)	\$ 2,384,403	\$ 648,312	\$ 468,698	\$ 1,034,118	\$ 409,839	\$ 4,945,370	\$ 970,278	\$ -	\$ 970,278	\$ 5,915,648	\$ 5,399,946
Supplies	518,902	49,218	25,993	55,334	16,192	665,639	47,385	-	47,385	713,024	687,159
Employee benefits (Note 8)	203,338	38,085	66,508	147,409	65,099	520,439	115,814	-	115,814	636,253	615,212
Payroll taxes	163,893	46,023	34,966	64,159	28,952	337,993	69,589	-	69,589	407,582	374,351
Rent and leases (Note 13)	111,898	-	107,087	76,058	2,337	297,380	71,334	-	71,334	368,714	323,165
Contractual services	53,891	4,240	-	5,646	176,057	239,834	18,058	109,755	127,813	367,647	460,898
Depreciation and amortization (Note 6)	118,750	16,059	-	51,829	50,197	236,835	37,705	-	37,705	274,540	208,569
Provision for doubtful accounts (Notes 4 and 5)	140,808	50,000	-	-	-	190,808	-	-	-	190,808	113,296
Dues and subscriptions	68,796	19,010	2,536	9,514	3,744	103,600	38,445	5,595	44,040	147,640	147,581
Occupancy	54,776	19,885	13,970	21,014	14,746	124,391	17,892	-	17,892	142,283	138,829
Communications	54,553	8,814	23,278	25,146	13,318	125,109	15,441	-	15,441	140,550	121,434
Professional fees	28,178	27,953	270	16,031	3,978	76,410	50,051	1,282	51,333	127,743	174,118
Insurance (Note 15)	13,724	6,888	10,299	16,065	6,553	53,529	19,374	10,725	30,099	83,628	28,500
Repairs and maintenance	27,141	6,720	1,738	11,211	9,362	56,172	11,735	1,075	12,810	68,982	53,192
Dental and laboratory fees	38,689	20,405	-	-	30	59,124	-	-	-	59,124	61,641
Travel	1,504	487	3,104	17,526	15,470	38,091	5,788	-	5,788	43,879	60,487
Taxes, licenses and permits	15,601	1,706	200	4,233	6,153	27,893	8,494	249	8,743	36,636	73,913
Recruitment and training	7,561	1,669	1,812	1,476	1,749	14,267	13,749	-	13,749	28,016	90,814
Interest (Note 9)	-	-	-	11,672	10,561	22,233	-	-	-	22,233	40,494
Legal	1,938	-	-	-	-	1,938	16,818	2,208	19,026	20,964	-
Food	4,062	1,156	420	4,527	3,434	13,599	6,430	-	6,430	20,029	38,394
Printing	3,238	202	4,243	133	5,801	13,617	1,703	780	2,483	16,100	24,401
Advertising	2,840	-	11,310	-	-	14,150	950	194	1,144	15,294	2,870
Postage	1,899	52	26	-	-	1,977	11,491	-	11,491	13,468	15,566
Small equipment purchase	1,803	10,659	90	-	-	12,552	-	750	750	13,302	11,988
Miscellaneous	296	(150)	958	40,551	15,589	57,244	24,457	-	24,457	81,701	83,607
Allocated Overhead	447,652	112,659	120,556	181,624	103,240	965,731	(965,739)	-	(965,739)	(8)	-
	<u>\$ 4,470,134</u>	<u>\$ 1,090,052</u>	<u>\$ 898,062</u>	<u>\$ 1,795,276</u>	<u>\$ 962,401</u>	<u>\$ 9,215,925</u>	<u>\$ 607,242</u>	<u>\$ 132,613</u>	<u>\$ 739,855</u>	<u>\$ 9,955,780</u>	<u>\$ 9,350,425</u>

See accompanying notes to financial statements.

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY  
(A California Nonprofit Organization)

STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2012  
(With Comparative Totals for 2011)

	2012	2011 Totals [Memorandum Only]
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 1,654,785	\$ 1,343,565
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	274,540	208,569
Provision for doubtful accounts	190,808	113,296
Change in operating assets and liabilities:		
(Increase)/Decrease in:		
Accounts receivable	(283,436)	(99,891)
Grants receivable	(378,315)	91,076
Deposits and prepaid expenses	(53,390)	(6,274)
Increase/(Decrease) in:		
Accounts payable and accrued expenses	578,375	(50,475)
Accrued salaries and fringe benefits	(63,460)	(16,126)
Accrued personal time off	72,631	40,985
Deposits held in behalf of others	(3,600)	(11,400)
Total adjustments	334,153	269,760
Net cash provided by operating activities	1,988,938	1,613,325
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(1,688,658)	(1,106,685)
Matured (additional) investments	(256,269)	842,474
Net cash used in investing activities	(1,944,927)	(264,211)
<b>Cash flows from financing activities:</b>		
Principal payments of long-term note payable	(253,947)	(327,450)
Net cash used in financing activities	(253,947)	(327,450)
Net increase (decrease) in cash and cash equivalents	(209,936)	1,021,664
Cash and cash equivalents at beginning of year	2,993,340	1,971,676
Cash and cash equivalents at end of year	\$ 2,783,404	\$ 2,993,340
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 22,233	\$ 40,494
Cash paid for income taxes	\$ -	\$ -

*See accompanying notes to financial statements.*

**INDIAN HEALTH CENTER OF SANTA CLARA VALLEY**  
**(A California Nonprofit Organization)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 and 2011**

---

**Note 1 – Organization**

---

Indian Health Center of Santa Clara Valley (the "Center") is a California nonprofit community-based organization that helps ensure the survival of American Indian Families and local community by providing quality health care, by supporting the healing process, by encouraging, educating, and empowering their clients in seeking and maintaining wellness and enhancing their quality of life, and by facilitating the equity and accessibility of comprehensive health care for the American Indian community. The services the Center provides include medical, dental, women, infant and children (WIC) nutrition programs, counselling and community health services. The majority of the Center's funding is from Federal, California and County of Santa Clara grants and programs.

The Center provides the following comprehensive, culturally competent services:

1. **MEDICAL Services:** A full range of primary health services for low-income children, families and adults including general medical care, immunizations, comprehensive prenatal and postnatal care, cancer prevention and screening, chronic disease management, and geriatric health services.
2. **DENTAL Services:** A full range of restorative, preventive, and general dentistry services.
3. **NUTRITION - WIC (Women-Infant-Children):** Food vouchers, nutrition counseling, and breastfeeding support for low-income women and their children.
4. **COUNSELING Services:** Individual and group mental health counseling, psychiatric care, a state-certified outpatient substance abuse program, and traditional American Indian ceremonies and gatherings.
5. **COMMUNITY WELLNESS Services:** Health education, an award-winning and evidence-based diabetes prevention program, fitness in a state-of-the-art facility, nutrition counseling, case management, community outreach, and integrated wellness and medical services.

**Note 2 – Summary of Significant Accounting Policies**

---

Basis of Accounting

The accounts of the Center are maintained on the accrual basis of accounting. Revenues are recognized when earned, and expenditures are recorded when incurred.

Basis of Presentation

The accompanying financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets.



INDIAN HEALTH CENTER OF SANTA CLARA VALLEY  
(A California Nonprofit Organization)  
NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2012 and 2011

---

Note 2 – Summary of Significant Accounting Policies - Continued

---

Net assets and revenues, expenses, gains and losses are classified based on the absence or existence and nature of donor-imposed restrictions. Accordingly, net assets of the Center and changes therein are classified and reported as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Center and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. In situations when the Center meet donor-imposed restrictions on all or a portion of the amount contributed in the same reporting period in which the contribution is received, the contribution is reported as unrestricted support, which increases unrestricted net assets. There were no temporarily restricted net assets at June 30, 2012 and 2011.
- Permanently restricted net assets – Net assets subject to donor-imposed restrictions that they be maintained permanently by the Center. Generally, the donors of such assets permit the Center to use all or part of the income earned on any related investments for general or specific purposes. There were no permanently restricted net assets at June 30, 2012 and 2011.

Use of Estimates

Preparation of financial statements in accordance with generally accepted accounting principles require the use of management estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the accounting period. Actual results could differ from those estimates and disclosures in these financial statements. The most significant estimates relate to depreciation and allowance for doubtful accounts on accounts receivable and grants receivable.

Concentration of Credit Risk

Financial instruments that potentially subject the Center to concentrations of credit risk is primarily cash and cash equivalents, investments, accounts and grants receivable.

The Center deposits its cash accounts with several financial institutions, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to legal limits. The Center places its cash deposits with high-credit, quality financial institutions and has certificate of deposit placement programs with two financial institutions which, by policy, limit its credit exposure. The Center has not experienced any losses in such amounts and believes it is not exposed to significant credit risk.

Fund Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources by the grantors, the accounts are maintained internally in accordance with the principles of fund accounting.

Cash and Cash Equivalents

The Center considers all highly liquid instruments with an original maturity of three months or less at the date of acquisition to be cash equivalents.

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY  
(A California Nonprofit Organization)  
NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2012 and 2011

---

Note 2 – Summary of Significant Accounting Policies - Continued

---

Investments

Investments consist of certificates of time deposit with maturities of more than three months at the date of acquisition.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Center provides for losses on accounts receivable using the allowance method. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Center's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected and when all collection attempts have failed.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is maintained at a level believed adequate by management to absorb probable losses in the accounts receivable and grants receivable. Management's determination of the adequacy of the allowance is based on periodic evaluations of its receivables, its composition, past loss experience, current economic conditions, and other relevant factors and circumstances, which may affect the ability of patients to meet their obligations. At June 30, 2012 and 2011, management determined that allowances for doubtful accounts are adequate to reduce receivables at its net realizable value.

Property and Equipment

Property and equipment are stated at cost at the date of acquisition less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the approximate useful lives of the assets, ranging from 3 to 20 years. Leasehold improvements are amortized over the shorter of the term of the lease or useful life of the improvement, usually over 3 years. Repairs and maintenance are expensed as incurred while major improvements that extend the useful life of an asset are capitalized. Upon sale or retirement of property and equipment, the costs and related accumulated depreciation and amortization are eliminated from the accounts. Any resulting gains and losses are included in the determination of changes in net assets. Items received by donation, gift or bequest are stated at fair market value at the date of donation.

The Center capitalizes items with costs greater than or equal to \$5,000. Assets purchased with government grants are expended in accordance with government program guidelines.

Accrued Personal Time Off

Unpaid vacation benefits are recognized as liabilities of the Center in the unrestricted general program.

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY  
(A California Nonprofit Organization)  
NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2012 and 2011

---

Note 2 – Summary of Significant Accounting Policies - Continued

---

Revenues and Support

Government grant revenues are funded primarily by Federal, State, and County grants that generally restrict the use of such funds to cover the operating expenses directly related to providing primary care services under contracts and grants. The Center recognizes revenues from grant and contracts to the extent of expenditures incurred but not exceeding the actual grant and contract awards. These grants are recognized as revenues over the periods specified in the related grant award agreements or as earned.

Service revenues are recorded during the period in which services are rendered.

Donations and contributions that have been received for a specified purpose but have not yet been spent are recognized as temporarily restricted net assets. When the services are rendered, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. In-kind contributions are recognized as revenues at the amount that the Center would have to pay for similar items, which approximates its fair market value. For the years 2012 and 2011, the Center received in kind donation in the form of vaccines amounting to approximately \$230,000 and \$294,261, respectively, from the State of California which was included in donations and contributions in the statements of activities. In 2012, the Center also received \$88,090 worth of furniture and equipment (Note 18).

The Center received contributed services from unpaid volunteers performing a variety of tasks that assist the Center with specific assistance programs and various committee assignments. The value of the contributed time is not reflected in the financial statements since it does not meet the criteria for recognition.

The Center receives revenues from third-party payors and patients. The Center has agreements with third-party payors that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Since the net realizable amounts are estimates, the ultimate settlement may be more or less than the amount included in the financial statements. The methods of establishing the estimates are continually analyzed, updated and reviewed and the difference between the estimated net realizable amounts and the related actual settlements are recognized in the period the revenues are settled. While actual revenues could differ from those estimates, management does not expect the variances, if any, to have a material effect, on the financial statements.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY  
(A California Nonprofit Organization)  
NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2012 and 2011

---

Note 2 – Summary of Significant Accounting Policies - Continued

---

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities by program. Accordingly, certain costs and expenses have been allocated based on direct expenditures incurred among the programs and supporting services benefited.

Advertising Costs

Advertising costs are reported in operating expenses and include costs of advertising and other marketing activities. The Center accounts for advertising costs as non-direct response advertising. Accordingly, advertising costs are expensed as incurred.

Income Taxes

The Center is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the Revenue and Taxation Code of the State of California, therefore, no provision for income taxes has been provided. The Center files the necessary informational returns. Income from certain activities not directly related to the Center's tax-exempt purpose is subject to taxation as unrelated business income, however, during the years ended June 30, 2012 and 2011, such activities are very minimal.

The Center follows certain provisions of Accounting Standards Codification No. 740 (previously reported as Financial Accounting Standards Board Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*" ("FIN 48")). As of June 30, 2012 and 2011, the Center has identified no uncertain tax position for which it is reasonably possible that the amount of unrecognized tax benefits will significantly increase or decrease within 12 months. The Center is no longer subject to U.S. federal or state examinations by tax authorities for years before 2009 and 2008, respectively.

Fair Value of Financial Instruments

The Center's statement of financial position includes the following financial instruments: cash and cash equivalents, investments, accounts receivable, grants receivable, accounts payable and note payable. The Center considers the carrying amounts of current assets and liabilities in the financial statements to approximate the fair value for these financial instruments because of the relatively short period of time between origination of the instruments and their expected realization or settlement.

Subsequent Events

The Center evaluated subsequent events through September 27, 2012, the date the financial statements were available to be issued.

Prior Year Summarized Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class [2011 Totals (Memorandum Only)] to facilitate financial analysis. Such information may not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY  
(A California Nonprofit Organization)  
NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2012 and 2011

---

**Note 3 – Investments**

---

Investments consist of certificates of time deposit with maturities of more than three months at the date of acquisition.

The maturity distribution of Investments at June 30 follows:

	<u>2012</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
Less than twelve months	\$ 2,088,297	\$ 2,088,297
One to five years	-	-
Five to ten years	-	-
Over ten years	-	-
	<u>\$ 2,088,297</u>	<u>\$ 2,088,297</u>

	<u>2011</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
Less than twelve months	\$ 1,832,028	\$ 1,832,028
One to five years	-	-
Five to ten years	-	-
Over ten years	-	-
	<u>\$ 1,832,028</u>	<u>\$ 1,832,028</u>

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY  
(A California Nonprofit Organization)  
NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2012 and 2011

---

**Note 4 – Accounts Receivable, Net**

---

Accounts receivable consists of the following:

	<u>2012</u>	<u>2011</u>
Medi-Cal	\$ 558,680	\$ 501,429
Managed Care	141,148	150,207
State-Only Family Planning	58,221	49,207
Medicare	57,759	82,087
Sliding Scale	55,783	248,111
Private insurance	41,553	30,607
Comprehensive Perinatal Services Program	31,870	-
Valley Care	28,990	24,256
Healthy Families	7,440	21,618
Child Health and Disability Prevention	3,324	66,074
FQHC Cost Settlement	-	125,271
Others	<u>12,992</u>	<u>17,350</u>
Total accounts receivable	997,760	1,316,217
Less allowance for doubtful accounts	<u>(362,779)</u>	<u>(707,181)</u>
Net accounts receivable	<u><u>\$ 634,981</u></u>	<u><u>\$ 609,036</u></u>

Changes in the allowance for doubtful accounts were as follows:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 707,181	\$ 1,039,800
Provision charged to operations	257,491	113,296
Charge offs	<u>(601,893)</u>	<u>(445,915)</u>
Balance, end of year	<u><u>\$ 362,779</u></u>	<u><u>\$ 707,181</u></u>

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY  
(A California Nonprofit Organization)  
NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2012 and 2011

---

**Note 5 – Grants Receivable - Net**

---

Grants receivable consists of the following:

	<u>2012</u>	<u>2011</u>
County of Santa Clara	\$ 264,828	\$ 493,595
Federal - Indian Health Services	253,409	338,019
Federal - Section 330 Grant	409,421	257,465
Federal - Women, Infants and Children Program	179,267	159,020
Federal - Center for Substance Abuse Prevention	32,633	82,007
City of San Jose	638,879	62,480
Others	<u>61,388</u>	<u>54,129</u>
Total grants receivable	1,839,825	1,446,715
Less allowance for doubtful accounts	<u>(175,000)</u>	<u>(226,888)</u>
Net grants receivable	<u>\$ 1,664,825</u>	<u>\$ 1,219,827</u>

Changes in the allowance for doubtful accounts were as follows:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 226,888	\$ 79,349
Provision charged to operations	(66,683)	-
Recoveries	<u>14,795</u>	<u>147,539</u>
Balance, end of year	<u>\$ 175,000</u>	<u>\$ 226,888</u>

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY  
(A California Nonprofit Organization)  
NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2012 and 2011

---

**Note 6 – Property and Equipment, Net**

---

Property and equipment consists of the following:

	2012	2011
	<u>                    </u>	<u>                    </u>
Land	\$ 2,254,126	\$ 2,254,126
Building and building improvements	5,900,969	3,956,890
Leasehold improvements	235,013	490,434
Vehicles	54,434	54,434
Furniture and equipment	<u>34,653</u>	<u>34,653</u>
 Total cost	 8,479,195	 6,790,537
Accumulated depreciation and amortization	<u>1,766,844</u>	<u>1,492,304</u>
 Net book value	 <u>\$ 6,712,351</u>	 <u>\$ 5,298,233</u>

Depreciation and amortization expense for the years ended June 30, 2012 and 2011 amounted to \$274,540 and \$208,569, respectively.

**Note 7 – Compensated Absences**

---

Accumulated unpaid personal time off are recognized as liability by the Center. The liability is recognized in the program to which the liability relates. The total liability for personal time off as of June 30, 2012 and 2011 amounted to \$437,658 and \$365,027, respectively.

The Center operates a Personal Time Off (PTO) System where the employees gained hours for unused vacation and sick leaves. The accrued personal time are paid out at separation or severance of employment of the employees from the Center. Vacation and sick leaves charged to salaries during the years ended June 30, 2012 and 2011 amounted to \$72,631 and \$40,985, respectively.

**Note 8 – Pension Plan**

---

The Center maintains a 401(k) pension plan covering all employees who are eligible to participate in the plan. An employee is eligible for the 401(k) plan upon the first day of the month following the date of hire. An eligible employee may contribute up to a maximum of 100% of compensation subject to the maximum dollar limit determined by Internal Revenue Service each year. Upon attainment of age 21 and completion of a year of service, the 401(k) plan provides for a Center match of up to 2.5% of the participants' salary. The Center contributed \$62,287 and \$68,079 during the years ended June 30, 2012 and 2011, respectively, accounted for in employee benefits in the accompanying schedule of functional expenses. The match has a 4-year graduated vesting provision.



INDIAN HEALTH CENTER OF SANTA CLARA VALLEY  
(A California Nonprofit Organization)  
NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2012 and 2011

---

**Note 9 – Long-Term Note Payable**

---

In June 2007, the Center entered into a term loan agreement amounting to \$1,500,000. The note is payable in principal and interest in equal monthly payments of \$11,765 and the remaining unpaid balance is due on June 1, 2014. The interest rate is 7.15% per annum. Interest is computed on the basis of 365 days a year. The note is secured by a Deed of Trust on the property located at 602 E. Santa Clara Street, San Jose, California.

The principal amount outstanding as of June 30, 2012 was \$131,401 which was classified as follows:

Total amount outstanding	\$ 131,401
Less current maturities included in current liabilities	<u>(50,377)</u>
Long-term portion of notes payable	<u><u>\$ 81,024</u></u>

The Center was able to pay \$135,000 and \$215,000 over and above monthly scheduled principal and interest payments of \$11,765 due to better cash flows for the years ended June 30, 2012 and 2011, respectively.

The terms of the note require the Center to maintain certain financial measurements and conditions, among others, a debt service coverage ratio of 1.20 to 1.00 to be tested annually. Debt Service Coverage Ratio is defined as the Center's net operating income for the most recent twelve months period divided by the debt service (i.e., principal and interest payments) for the same period. At June 30, 2012 and 2011, management believes that the Center was in compliance with those requirements.

As of June 30, 2012, future principal payments on long-term note payable is as follows:

Year ended June 30,	
2013	\$ 50,377
2014	54,099
2015	26,925
2016	-
2017	-
Thereafter	<u>-</u>
Balance, end of year	<u><u>\$ 131,401</u></u>

For the years ended June 30, 2012 and 2011, the aggregate amount of interest from these borrowings included in the statement of activities amounted to \$22,233 and \$40,494, respectively.

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY  
(A California Nonprofit Organization)  
NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2012 and 2011

---

**Note 10 – Unrestricted Net Assets**

---

The unrestricted net assets as of June 30, 2012 and 2011 include net book value of property and equipment of \$6,712,351 and \$5,298,233, respectively, which is not considered to be liquid asset.

During the year ended June 30, 2012, the Center received federal and city grants amounting to \$152,322 and \$1,141,285, respectively, for the renovation of one of its buildings. Total cost expended during the year for the building renovation amounted to \$1,471,527.

Grants received were included in grant revenues in the accompanying statement of activities and while the cost expended are included in property and equipment in the accompanying statement of financial position.

**Note 11 – Temporarily Restricted Net Assets**

---

There are no temporarily restricted assets at June 30, 2012 and 2011.

**Note 12 – Net Assets Released From Restrictions**

---

During the years ended June 30, 2012 and 2011, temporarily restricted net assets of \$0 and \$13,089, respectively, were released from donor restrictions through passage of time.

**Note 13 – Commitments**

---

The Center leases its satellite program sites in Santa Clara County, California under non-cancellable operating leases expiring in various years through fiscal year 2017. These leases provide for annual escalation charges and renewal options.

Aggregate future minimum lease commitments for the non-cancellable facility leases having remaining terms in excess of one year as of June 30, 2012, for each of the next five years and in the aggregate are as follows:

Year ended June 30,		
2013	\$	528,194
2014		423,295
2015		299,302
2016		232,230
2017		232,230
Thereafter		-
Total	\$	<u>1,715,251</u>

Rent expense related to these lease commitments for the years ended June 30, 2012 and 2011 amounted to \$343,271 and \$253,159, respectively.

**INDIAN HEALTH CENTER OF SANTA CLARA VALLEY**  
**(A California Nonprofit Organization)**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**JUNE 30, 2012 and 2011**

---

**Note 14 - Contingencies**

---

Future funding for the Center's programs is contingent upon the availability of funds from Federal, State, County and other sources, as well as the operating performance of the programs.

The Center has received Federal, State and County funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, the Center's management does not anticipate any material questioned costs for the contracts and grants administered during the period.

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, accreditation, licensure, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse status and regulations by health care providers. Violations of these laws and regulations could result in exclusion from government health care program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. While the Center is subject to similar regulatory reviews, there are no reviews currently underway, and management believes that the outcome of any potential regulatory review will not have a material adverse effect on the Center's financial position.

**Note 15 – Insurance Coverage**

---

At June 30, 2012, the Center carried the following insurance coverage: (a) professional liability insurance and health care general liability insurance of \$2 million per occurrence and \$4 million aggregate, in which premiums were paid through April 1, 2013; (b) employee benefits program insurance of \$1 million per employee, per accident and in aggregate, in which premiums were paid through April 1, 2013; (c) directors' and officers' liability insurance of \$2 million, in which premiums were paid through March 22, 2013, and (d) automobile insurance coverage of \$1 million and property insurance coverage of \$7.691 million – premiums of which were paid through July 1, 2013.

**Note 16 – Rental Income**

---

For the years ended June 30, 2012 and 2011, the Center received rental income from its buildings purchased in 2011. The lessee was the buildings' previous owner. The purchase agreement included the right of the previous owner to rent back the buildings for up to 3 months after the sale. The lease ended on August 31, 2011 without extension. Rental income earned for the year ended June 30, 2012 and 2011 amounted to \$10,800 and \$28,800, respectively and is included in rental income in the accompanying statements of activities.

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY  
(A California Nonprofit Organization)  
NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2012 and 2011

---

**Note 17 – Significant Transaction**

---

On April 17, 2012, the Center entered into an agreement with O' Connor Hospital ("OCH"), a California religious corporation that operates an outpatient department of a general acute care license clinic. Both parties agreed to a series of transactions, including, without limitation:

1. A grant by OCH to the Center of certain assets used in the operation of the clinic at the clinic location. This amounted to \$88,090 which approximates its fair market value and was included in donations and contributions in the accompanying statement of activities;
2. The sublease of the clinic location by the Center (Note 13); and,
3. Certain agreements regarding the on-going operations of the clinic as the primary family medicine clinic location rotation site for the OCH Residency Program.

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY  
(A California Nonprofit Organization)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<b>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Indian Health Services - Urban Indian Health Services	93.193		\$ 830,255
Consolidated Health Centers – Section 330 Grant	93.224/93.527		782,369
Competitive Special Diabetes Program for Indians	93.237		312,665
Special Diabetes Program for Indians	93.237		270,723
HRSA – Health Care and Other Facilities	93.887		<u>164,661</u>
			2,360,673
<b>Pass-through from Native American Health Center:</b>			
Substance Abuse and Mental Health Services Administration-One with All (CSAP)	93.243	2065	<u>154,613</u>
<b>TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<u>2,515,286</u>
<b>U. S. DEPARTMENT OF AGRICULTURE</b>			
<b>Pass-through from the State Department of Health and Human Services:</b>			
Supplemental Food Program - Women, Infants and Children (WIC) Nutrition	10.557	11-10465	<u>797,098</u>
<b>TOTAL U. S. DEPARTMENT OF AGRICULTURE</b>			<u>797,098</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 3,312,384</u></u>

**Note:**

**Basis of Presentation**

The above schedule of expenditures of federal awards includes the federal grant activity of the Center under the programs of the Federal government and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



INDEPENDENT AUDITORS' 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*

The Board of Directors  
Indian Health Center of Santa Clara Valley  
(A California Nonprofit Organization)  
San Jose, California

We have audited the financial statements of Indian Health Center of Santa Clara Valley, a Nonprofit Organization, (the "Center") as of and for the year ended June 30, 2012 and have issued our report thereon dated September 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our audit procedures 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 Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, the Board of Directors, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Garbino & Co., LLP*

Los Angeles, California  
September 27, 2012



INDEPENDENT AUDITORS' REPORT  
ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133

The Board of Directors  
Indian Health Center of Santa Clara Valley  
(A California Nonprofit Organization)  
San Jose, California

Compliance

We have audited Indian Health Center of Santa Clara Valley's, a Nonprofit Organization, (the "Center") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2012. The Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

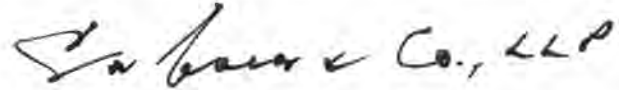
Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance requirement with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.



Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "DeLoach & Co., LLP". The signature is written in a cursive, flowing style.

Los Angeles, California  
September 27, 2012

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY  
(A California Nonprofit Organization)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued	<i>Unqualified</i>
Internal control over financial reporting:	
• Material weakness identified	No
• Significant deficiencies identified that are not considered to be material weakness	None reported
Non-compliance material to financial statements noted	No

Federal Awards

Internal control over major programs:	
• Material weakness identified	No
• Significant deficiencies identified that are not considered to be material weakness	None reported
Type of auditors’ report issued on compliance for major programs	<i>Unqualified</i>
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133	No
Identification of major programs:	

<u>CFDA/Control Number</u>	<u>Name of Federal/Local Program</u>
93.193	Indian Health Services - Urban Indian Health Services
93.224/93.257	Consolidated Health Centers – Section 330 Grant
93.237	Competitive Special Diabetes Program for Indians
93.237	Special Diabetes Program for Indians
10.557	Supplemental Food Program - Women, Infants and Children (WIC) Nutrition

Dollar threshold used to distinguish between type A and type B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY  
(A California Nonprofit Organization)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)  
FOR THE YEAR ENDED JUNE 30, 2012

Section II – Financial Statements Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

**INDIAN HEALTH CENTER OF SANTA CLARA VALLEY  
(A California Nonprofit Organization)  
STATUS OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2012**

There were no findings reported in the prior year ended June 30, 2011.