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

**INDEPENDENT AUDITOR'S REPORT
AND
AUDITED FINANCIAL STATEMENTS**

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

 **Patel &
Associates**
Certified Public Accountant

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Indian Health Center of Santa Clara Valley
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of Indian Health Center of Santa Clara Valley (a Non-Profit Organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The financial statements of Indian Health Center of Santa Clara Valley as of June 30, 2012 were, audited by other auditors whose report dated September 27, 2012 expressed an unmodified opinion on these statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2013, on our consideration of Indian Health Center of Santa Clara Valley'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* in considering Indian Health Center of Santa Clara Valley's internal control over financial reporting and compliance.

Oakland, California
September 25, 2013

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013
(Summarized totals for 2012)

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents (Note 3)	\$ 3,021,005	\$ 2,783,404
Investments (Note 4)	2,240,483	2,088,297
Accounts receivable, net (Note 5)	1,085,263	634,981
Grants receivable, net (Note 6)	1,090,931	1,664,825
Deposits and prepaid expenses	<u>146,796</u>	<u>92,380</u>
Total current assets	<u>7,584,478</u>	<u>7,263,887</u>
Property and equipment (Note 7)		
Property and equipment, net of accumulated depreciation	<u>6,679,764</u>	<u>6,712,351</u>
Total assets	<u>\$ 14,264,242</u>	<u>\$ 13,976,238</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities		
Accounts payable and accrued expenses	\$ 207,137	\$ 722,581
Accrued salaries and fringe benefits	342,308	29,793
Accrued personal time off (Note 8)	482,990	437,658
Unearned income	11,519	
Current portion of note payable (Note 9)		<u>50,377</u>
Total current liabilities	<u>1,043,954</u>	<u>1,240,409</u>
Long-term liabilities:		
Long-term note payable (Note 9)		<u>81,024</u>
Total long-term liabilities		<u>81,024</u>
Total liabilities	<u>1,043,954</u>	<u>1,321,433</u>
Net assets:		
Unrestricted	<u>13,220,288</u>	<u>12,654,805</u>
Total net assets	<u>13,220,288</u>	<u>12,654,805</u>
Total liabilities and net assets	<u>\$ 14,264,242</u>	<u>\$ 13,976,238</u>

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

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013
(Summarized totals for 2012)

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>	
			<u>2013</u>	<u>2012</u>
Revenues, gains and support:				
Grant revenues	\$ 4,948,234	\$	\$ 4,948,234	\$ 5,872,235
Service revenues, net (Note 16)	9,199,381		9,199,381	5,179,278
Donations and contributions	337,678		337,678	503,142
Interest income	9,032		9,032	15,607
Rental income				10,800
Fund raising revenue	1,855		1,855	8,782
Miscellaneous income (Note 17)	<u>329,056</u>		<u>329,056</u>	<u>20,721</u>
 Total revenues, gains and support	 <u>14,825,236</u>		 <u>14,825,236</u>	 <u>11,610,565</u>
Expenses:				
Medical services	8,595,748		8,595,748	4,470,134
Dental services	1,176,912		1,176,912	1,090,052
Nutrition services	936,732		936,732	898,062
Counseling services	1,825,428		1,825,428	1,795,276
Community wellness services	965,035		965,035	962,401
Management and general	738,887		738,887	607,242
Building and equipment	<u>21,011</u>		<u>21,011</u>	<u>132,613</u>
 Total expenses (Note 19)	 <u>14,259,753</u>		 <u>14,259,753</u>	 <u>9,955,780</u>
 Change in net assets	 565,483		 565,483	 1,654,785
 Net assets at beginning of year	 <u>12,654,805</u>		 <u>12,654,805</u>	 <u>11,000,020</u>
 Net assets at end of year	 <u>\$ 13,220,288</u>	 <u>\$</u>	 <u>\$ 13,220,288</u>	 <u>\$ 12,654,805</u>

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

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013
(Summarized totals for 2012)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 565,483	\$ 1,654,785
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	438,591	274,540
Provision for doubtful accounts	470,667	190,808
Changes in operating assets and liabilities:		
(Increase)/Decrease in:		
Accounts receivable	(920,949)	(283,436)
Grants receivable	573,894	(378,315)
Deposits and prepaid expenses	(54,416)	(53,390)
Increase/(Decrease) in:		
Accounts payable and accrued expenses	(515,444)	578,375
Accrued salaries and fringe benefits	312,515	(63,460)
Accrued personal time off	45,332	72,631
Deposit held on behalf of others	11,519	(3,600)
Net cash provided by operating activities	<u>927,192</u>	<u>1,988,938</u>
Cash flows from investing activities:		
Purchase of property and equipment	(406,004)	(1,688,658)
Purchase of investments	(152,186)	(256,269)
Net cash used by investing activities	<u>(558,190)</u>	<u>(1,944,927)</u>
Cash flows from financing activities:		
Principal payments on long-term note payable	(131,401)	(253,947)
Net cash used by financing activities	<u>(131,401)</u>	<u>(253,947)</u>
Net increase / (decrease) in cash and cash equivalents	237,601	(209,936)
Cash and cash equivalents at beginning of year	<u>2,783,404</u>	<u>2,993,340</u>
Cash and cash equivalents at end of year	<u>\$ 3,021,005</u>	<u>\$ 2,783,404</u>
Supplemental disclosures:		
Cash paid for interest	<u>\$ 16,436</u>	<u>\$ 22,233</u>

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

**INDIAN HEALTH CENTER OF SANTA CLARA VALLEY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

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, counseling, community health services, and women, infant and children (WIC) nutrition programs. 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:

Medical Services: A full range of primary health services for low-income children, families and adults including general medical care, immunization, comprehensive prenatal and postnatal care, cancer prevention and screening, chronic disease management, and geriatric health services.

Dental Services: A full range of restorative, preventive, and general dentistry services.

Nutrition –WIC (Women-Infant-Children): Food vouchers, nutrition counseling, and breastfeeding support for low-income women and their children.

Counseling Services: Individual and group mental health counseling, psychiatric care, a state-certified outpatient substance abuse program, and traditional American Indian ceremonies and gatherings.

Community Wellness: 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: SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The Center prepares its financial statements on the accrual basis of accounting recognizing revenues when earned and expenses when incurred.

B. Financial Statement 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
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence 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 restrictions.

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. There were no temporarily restricted net assets at June 30, 2013 and 2012.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Center. Generally, the donors of these 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, 2013 and 2012.

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require the use of management estimates and assumptions that affect certain reported amounts of assets 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.

D. 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.

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

E. 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.

F. 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.

G. Investments

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

H. 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.

I. 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, 2013 and 2012, management determined that allowances for doubtful accounts are adequate to reduce receivables at its net realizable value.

J. 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 estimated 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 7 years. Repairs and maintenance are expenses as incurred while major improvements that extend the useful life of an asset are capitalized.

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Upon sale or retirement of property and equipment, the costs and related accumulated depreciation and amortization 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.

K. Accrued Personal Time Off

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

L. Revenues and Support

Government Grant revenue is funded primarily by Federal, State, and County grants which 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.

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 its 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.

The Center participates in the Medicare program as a Federally Qualified Health Center (FQHC), which provides for cost reimbursement as an all-inclusive provider. This program provides reimbursement at a single rate for all types of services provided by the Center on an encounter-reporting basis. The Center also provides discounted medical services to self-pay patients on a sliding fee scale based on the patient's gross income. Sliding fee discounts are included in net service revenues in the accompanying statements of activities.

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

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 2013 and 2012, the Center received in-kind donation in the form of vaccines amounting to approximately \$185,500 and \$230,000, respectively, from the State of California which was included in donations and contributions in the statements of activities.

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.

M. 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.

N. Functional Allocation of Expenses

The costs of providing the various programs and other activities have 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.

O. 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.

P. Tax Exempt Status

The Center has been recognized by the Internal Revenue Service as a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC and 23701d of the California Revenue and Taxation Code.

**INDIAN HEALTH CENTER OF SANTA CLARA VALLEY
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

The Center has adopted the accounting guidance related to uncertain tax positions, and has evaluated its tax positions and believes that all of the positions taken by The Center in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Center's returns for years ended June 30, 2012, 2011 and 2010 are subject to examination by federal and state taxing authorities generally for three years after they are filed.

Q. Prior Year Summarized Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class to facilitate financial analysis. Such information does 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, 2012, from which the summarized information was derived.

NOTE 3: CASH AND CASH EQUIVALENTS

Bank balance at June 30, 2013 amounted to \$3,397,236, of which \$2,154,831 is not covered by FDIC. It is the opinion of the management that the solvency of the financial institutions is not of a particular concern at this time.

NOTE 4: INVESTMENTS

Investments are at fair value and consist of certificates of time deposit with maturities of more than three months at the date of acquisition. The maturity distribution of investments is as follows:

	2013	2012
Less than twelve months	\$ <u>2,240,483</u>	\$ <u>2,088,297</u>

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 5: ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	<u>2013</u>	<u>2012</u>
Medical	\$ 533,933	\$ 558,680
Managed care	493,707	141,148
State-Only Family Planning	11,064	58,221
Medicare	28,993	57,759
Sliding Scale	70,018	55,783
Private insurance	31,940	41,553
Comprehensive Perinatal Services Program	36,057	31,870
Valley Care	35,711	28,990
Healthy Families	5,128	7,440
Child Health and Disability Prevention	181,438	3,324
Others	<u>12,265</u>	<u>12,992</u>
Total accounts receivable	1,440,254	997,760
Less: Allowance for doubtful accounts	<u>(354,991)</u>	<u>(362,779)</u>
Accounts receivable, net	<u>\$ 1,085,263</u>	<u>\$ 634,981</u>

Changes in the allowance for doubtful accounts were as follows:

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 362,779	\$ 707,181
Provision charged to operations	470,667	257,491
Charge offs	<u>(478,455)</u>	<u>(601,893)</u>
Balance, end of year	<u>\$ 354,991</u>	<u>\$ 362,779</u>

**INDIAN HEALTH CENTER OF SANTA CLARA VALLEY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 6: GRANTS RECEIVABLE

The Center's grants receivable are as follows:

	<u>2013</u>	<u>2012</u>
County of Santa Clara	\$ 521,401	\$ 264,828
Federal - Indian Health Services	231,359	253,409
Federal – Section 330 Grant	26,962	409,421
Federal – Women, Infants and Children Program	228,520	179,267
Federal – Center for Substance Abuse Prevention		32,833
City of San Jose	84,788	638,879
Others	<u>165,651</u>	<u>61,388</u>
Total grants receivable	1,258,681	1,839,825
Less: Allowance for Doubtful accounts	<u>(167,750)</u>	<u>(175,000)</u>
Grants receivable, net	<u>\$ 1,090,931</u>	<u>\$ 1,664,825</u>

Changes in the allowance for doubtful accounts were as follows:

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 175,000	\$ 226,888
Provision charged to operations		(66,683)
Charge offs	<u>(7,250)</u>	<u>14,795</u>
Balance, end of year	<u>\$ 167,750</u>	<u>\$ 175,000</u>

**INDIAN HEALTH CENTER OF SANTA CLARA VALLEY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 7: PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2013</u>	<u>2012</u>
Land	\$ 2,254,126	\$ 2,254,126
Buildings and improvements	5,920,491	5,900,969
Furniture and equipment	42,286	34,653
Vehicles	54,434	54,434
Leasehold improvements	<u>613,862</u>	<u>235,013</u>
Total	8,885,199	8,479,195
Accumulated Depreciation and Amortization	<u>(2,205,435)</u>	<u>(1,766,844)</u>
Net Book Value	<u>\$ 6,679,764</u>	<u>\$ 6,712,351</u>

Depreciation expense for the years ended June 30, 2013 and 2012 amounted to \$438,591 and 274,540, respectively.

NOTE 8: COMPENSATED ABSENCES

Accumulated unpaid personal time off are recognized as liabilities of 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, 2013 and 2012 amounted to \$482,990 and \$437,658 respectively.

The Center operates a Personal Time Off (PTO) System where the employee gained hours for unused vacation and sick leave is accounted. The accrued personal time are paid out at separation or severance of employment of the employee from the Center. Vacation and sick leave charged to salaries during the years ended June 30, 2013 and 2012 amounted to \$45,332 and \$72,631, respectively.

NOTE 9: LONG-TERM NOTE PAYABLE

The Center borrowed \$1,500,000 and issued a note payable to Comerica Commercial Lending Services. The principal amount of the note is amortized over 10 years and is payable in principal and interest in equal monthly payments of \$11,765. 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.

**INDIAN HEALTH CENTER OF SANTA CLARA VALLEY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

The Center was able to pay \$20,000 and \$135,000 over and above monthly scheduled principal and interest payments of \$11,765 due to better cash flows for the year ended June 30, 2013 and 2012, respectively.

For the years ended June 30, 2013 and 2012, the aggregate amount of interest from these borrowings included in the statements activities amounted to \$16,436 and \$22,233, respectively.

NOTE 10: LEASE COMMITMENTS

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

Aggregate future minimum lease commitments for the non-cancelable facility leases having remaining terms in excess of one year as of June 30, 2013, for each of the next four years and in the aggregate are:

Year ended June 30,	
2014	\$ 501,967
2015	377,967
2016	250,583
2017	<u>232,230</u>
Total minimum future rental payments	<u>\$ 1,362,747</u>

Rent expense for the years ended June 30, 2013 and 2012 amounted to \$785,114 and \$343,271 respectively.

NOTE 11: 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 \$75,100 and \$62,287 during the years ended June 30, 2013 and 2012, respectively, accounted for in employee benefits. The match has a 4-year graduated vesting provision.

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 12: INSURANCE COVERAGE

At June 30, 2013, 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, 2014; (b) employee benefits program insurance of \$1 million per employee, per accident and in aggregate, in which premiums were paid through April 1, 2014; (c) directors' and officers' liability insurance of \$2 million, in which premiums were paid through March 22, 2014; (d) workers compensation and employer's liability insurance of \$1 million per employee, per accident and in aggregate, in which premiums were paid through April 1, 2014; and (e) automobile insurance coverage of \$1 million and property insurance coverage of \$6,137,883, premiums of which were paid through July 1, 2013.

NOTE 13: MALPRACTICE INSURANCE

The Center as an eligible Federally Qualified Health Center (FQHC) is covered under the Federal Tort Claims Act (FTCA) through submission of an annual renewal deeming application to the U.S. Department of Health and Human Services, Health Resources and Services Administration, Bureau of Primary Health Care. The health center, their employees, and eligible contractors are considered federal employees for medical malpractice claims while acting within the scope of their employment. In addition to coverage under the FTCA, the Center insures privately for professional liability coverage for any claims that may not be covered under FTCA. Under the policy, insurance premiums cover those claims asserted within policy limits. Management does not believe there are any material uninsured malpractice costs at June 30, 2013 and 2012.

NOTE 14: CONTINGENCIES

Future funding for the Center's program 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 management does not anticipate any material questioned costs for the contracts and grants administered during the period.

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

The health care 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 statutes 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: CONTINGENT GRANT EXPENDITURE ADJUSTMENTS

Grants and contracts require the fulfillment of conditions, as set forth in the terms of the grant or contract agreements, and are subject to audit by the grantor. Failure to comply with these conditions could result in the return of funds to the grantor. Although this is a possibility, the Center believes that it has complied with the conditions of the grants and no significant liabilities are expected to result from an audit.

NOTE 16: SERVICE REVENUES

The Center has agreements with third-party payors that provide payments to the Center at amounts different from its established rates. A summary of the payment arrangements with third-party payors follows:

Medicare: Medical services rendered to Medicare program beneficiaries are paid the lower of cost-based reimbursement or the FQHC cap per visit. The Center is reimbursed at a tentative ("interim") rate, with final settlement determined after submission of annual cost report by the Center and audit thereof by the fiscal intermediary. In the opinion of management, any final settlement of the associated cost reports will not materially affect the financial statements of the Center.

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY
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FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Medi-Cal: Medical, dental and behavioral health services rendered to Medi-Cal beneficiaries are paid under a Prospective Payment System, using rates established by the Center’s “Base Years” cost reports filed under the previous cost-based reimbursement system. These rates are adjusted annually according to changes in the Medicare Economic Index and any approved changes in the Center’s scope of service. The Center is required to file a payment reconciliation report with the state.

	2013	2012
Gross patient service revenues		
Medi-Cal	\$ 5,914,757	\$ 3,594,924
Medicare	1,053,569	528,298
Private pay	453,984	479,326
Third-party payors	1,110,238	822,180
Others	666,833	(245,450)
Total patient service revenues	\$ 9,199,381	\$ 5,179,278

NOTE 17: MEANINGFUL USE INCENTIVE

Miscellaneous income at June 30, 2013 includes \$318,750 meaningful use incentive for the Center’s use of a certified electronic health records management system.

NOTE 18: EVALUATION OF SUBSEQUENT EVENT

Management has evaluated subsequent events through September 25, 2013 the date at which the financial statements were available to be issued and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

NOTE 19: TOTAL EXPENSES

The total expenses incurred for the year are detailed as follows:

	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	2013	2012
EXPENSES											
Salaries	\$ 3,279,593	\$ 661,321	\$ 481,114	\$ 1,066,197	\$ 404,388	\$ 5,892,613	\$ 1,124,066	\$	\$ 1,124,066	\$ 7,016,679	\$ 5,915,648
Supplies	711,616	68,550	62,367	20,327	29,505	892,365	74,589	5,209	79,798	972,163	713,024
Employee benefits	389,973	63,641	70,124	164,804	66,913	755,455	101,956		101,956	857,411	636,253
Payroll taxes	228,263	48,335	34,818	66,901	30,653	408,970	82,177		82,177	491,147	407,582
Rent and leases	575,393		102,985	72,961	2,672	754,011	72,217		72,217	826,228	368,714
Contractual services	1,435,437	169		1,714	195,953	1,633,273	28,750	557	29,307	1,662,580	367,647
Depreciation and amortization	281,896	17,586		51,828	50,197	401,507	37,084		37,084	438,591	274,540
Bad debts	420,667	50,000				470,667				470,667	190,808
Dues and subscriptions	109,547	9,582	3,233	18,585	1,868	142,815	96,555		96,555	239,370	147,640
Occupancy	94,332	16,257	13,372	21,291	19,957	165,209	21,292		21,292	186,501	142,283
Communications	86,384	6,222	26,577	26,478	15,496	161,157	28,201		28,201	189,358	140,550
Professional fees	125,652	26,932	775	12,858	11,254	177,471	85,765	4,980	90,745	268,216	127,743
Insurance	28,719	847	5,562	5,092	6,108	46,328	6,815		6,815	53,143	83,628
Repairs and maintenance	72,352	21,037	7,432	8,821	7,530	117,172	27,139	10,075	37,214	154,386	68,982
Dental and laboratory fees	43,969	19,181				63,150	190		190	63,340	59,124
Travel	3,732	2,095	4,601	16,337	17,771	44,536	4,878		4,878	49,414	43,879
Taxes, licenses and permits	11,250	2,634	133	5,008	2,832	21,857	(571)	190	(381)	21,476	36,636
Recruitment and training	58,397	2,365	6,577	10,299	2,457	80,095	18,822		18,822	98,917	28,016
Interest				2,760	2,759	5,519	10,917		10,917	16,436	22,233
Legal	490			350		840	1,483		1,483	2,323	20,964
Food	2,796	338	598	1,628	1,788	7,148	11,842		11,842	18,990	20,029
Printing	9,562	422	4,954	213	7,024	22,175	3,690		3,690	25,865	16,100
Advertising	75		6,760			6,835	1,150		1,150	7,985	15,294
Postage	3,086		683		16	3,785	18,585		18,585	22,370	13,468
Small equipment purchase	7,604	14,694				22,298				22,298	13,302
Miscellaneous			43	31,305	18,157	49,505	34,394		34,394	83,899	81,701
Allocated overhead	614,963	144,704	104,024	219,671	69,737	1,153,099	(1,153,099)		(1,153,099)		(8)
Total expenses	\$ 8,595,748	\$ 1,176,912	\$ 936,732	\$ 1,825,428	\$ 965,035	\$ 13,499,855	\$ 738,887	\$ 21,011	\$ 759,898	\$ 14,259,753	\$ 9,955,780

SUPPLEMENTARY INFORMATION

**INDIAN HEALTH CENTER OF SANTA CLARA VALLEY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES :</u>			
<u>Direct Programs:</u>			
HRSA - Health Center Cluster - Section 330 Grant	93.224/93.527		\$ <u>787,873</u>
HRSA - Capital Development	93.526		<u>65,419</u>
Indian Health Services - Urban Indian Health Services	93.193		620,450
Indian Health Services - Urban Indian Health 4 in 1 Program	93.193		<u>226,748</u>
			<u>847,198</u>
Indian Health Services - Special Diabetes Program	93.237		298,063
Indian Health Services - Special Diabetes Programs for Indians	93.237		<u>179,066</u>
			<u>477,129</u>
Total direct programs			<u>2,177,619</u>
<u>Pass-through from University of California, Davis:</u>			
REACH: Racial and Ethnic Approaches to Community Health	93.738	N/A	<u>50,092</u>
<u>Pass-through from Native American Health Center:</u>			
Substance Abuse And Mental Health Services Administration- One with All (CSAP)	93.243	N/A	<u>11,787</u>
Total U.S. Department of Health and Human Services			<u>2,239,498</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<u>Pass-through from the State Department of Health and Human Services:</u>			
Supplemental Food Program - Women, Infants and Children (WIC)	10.557	N/A	<u>857,928</u>
Total U.S. Department of Agriculture			<u>857,928</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ <u>3,097,426</u></u>

N/A: Not Available

Note:

Basis of Presentation

The above schedule of expenditures of federal awards includes the federal grant activity of the Center 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 AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Indian Health Center of Santa Clara Valley
San Jose, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Indian Health Center of Santa Clara Valley (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Indian Health Center of Santa Clara Valley's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Indian Health Center of Santa Clara Valley's internal control. Accordingly, we do not express an opinion on the effectiveness of Indian Health Center of Santa Clara Valley's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Indian Health Center of Santa Clara Valley's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pattin & Associates
Oakland, California
September 25, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

The Board of Directors
Indian Health Center of Santa Clara Valley
San Jose, California

Report on Compliance for Each Major Federal Program

We have audited Indian Health Center of Santa Clara Valley's compliance with the types of compliance requirements described in the *OMB Circular A-133 compliance Supplement* that could have a direct and material effect on each of Indian Health Center of Santa Clara Valley's major federal programs for the year ended June 30, 2013. Indian Health Center of Santa Clara Valley's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Indian Health Center of Santa Clara Valley's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Indian Health Center of Santa Clara Valley'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 on compliance for each major federal program. However, our audit does not provide a legal determination of Indian Health Center of Santa Clara Valley's compliance.

Opinion on Each Major Federal Program

In our opinion, Indian Health Center of Santa Clara Valley complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Indian Health Center of Santa Clara Valley is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Indian Health Center of Santa Clara Valley's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Indian Health Center of Santa Clara Valley'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 material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Patrin & Associates
Oakland, California
September 25, 2013

**INDIAN HEALTH CENTER OF SANTA CLARA VALLEY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	<i>Unqualified</i>
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditor's 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 Number</u>	<u>Name of Federal Program</u>
10.557	Supplemental Food Program – Women, Infants and Children 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
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

**INDIAN HEALTH CENTER OF SANTA CLARA VALLEY
STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

There were no findings reported in the prior year.