

Audited Financial Statements

Indian Health Center of Santa Clara Valley

For the Year Ended June 30, 2020

Indian Health Center of Santa Clara Valley

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
FINANCIAL STATEMENTS	
Balance Sheet	3
Statement of Operations and Changes in Net Assets	4
Statement of Cash Flows	5
Notes to the Financial Statements	6
SINGLE AUDIT	
Schedule of Expenditures of Federal Awards	20
Notes to the Schedule of Expenditures of Federal Awards	21
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 <i>Government Auditing Standards</i>	22
Independent Auditor's Report on Compliance for each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	24
Schedule of Findings and Questioned Costs	26

Independent Auditor's Report

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 ("IHCSVCV"), which comprise the balance sheet as of June 30, 2020 and the related statements of operations and changes in net assets, 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 of 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, 2020 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, IHCSCV adopted Accounting Standards Update (“ASU”) ASU 2018-08, *Not - for-Profit-Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, ASU No. 2016-01, *Financial Instruments*, ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, and ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* for the year ended June 30, 2020. Our opinion is not modified with respect to this matter.

Other Matters*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2020 on our consideration of IHCSCV’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 IHCSCV’s internal control over financial reporting and compliance.

CAW. LLP

Fresno, California
November 16, 2020

Indian Health Center of Santa Clara Valley
Balance Sheet
June 30, 2020

Assets

Current assets:

Cash and cash equivalents	\$ 16,868,538
Investments	1,688,243
Patient accounts receivable, net	2,686,452
Grants and contributions receivable, net	1,898,281
Other receivables	456,257
Estimated third-party payor settlements	1,567,626
Deposits and prepaid expenses	406,313

Total current assets 25,571,710

Property and equipment, net 11,987,723

Total assets \$ 37,559,433

Liabilities and Net Assets

Current liabilities:

Accounts payable and other accrued expenses	614,636
Accrued payroll and related liabilities	1,912,176
Deferred revenue	3,485,653
Estimated third-party payor settlement	5,612,622
Other current liabilities	31,400
Long-term debt, current portion	59,812
Total current liabilities	11,716,299

Long-term debt, net of current portion 1,669,252

Total liabilities 13,385,551

Net Assets:

Net assets without donor restrictions	24,084,992
Net assets with donor restrictions	88,890
Total net assets	24,173,882

Total liabilities and net assets \$ 37,559,433

See accompanying Notes to the Financial Statements

Indian Health Center of Santa Clara Valley
Statement of Operations and Changes in Net Assets
For the year ended June 30, 2020

Change in net assets without donor restrictions

Revenues and support:

Patient service revenue, net	\$ 18,162,614
Risk pool, quality incentive and other revenues	1,664,014
Capitation revenue	1,472,030
Grant revenue	11,148,728
Contributions and other revenue	1,125,697
In-kind contributions	1,117,485
Net assets released from donor restrictions	121,731
Total revenues, gains, and other support	34,812,299

Expenses:

Salaries and wages	16,902,989
Employee benefits	3,850,891
Payroll taxes	1,212,806
Total personnel expenses	21,966,686

Contracted services	1,577,590
Supplies	2,186,084
Rent and leases	1,196,098
Depreciation and amortization	960,082
Occupancy	824,642
Professional services	689,010
Dues and subscriptions	504,009
Communications	306,167
Insurance	148,608
Interest	69,658
Other operating expenses	1,443,382
Total expenses	31,872,016

Excess of revenues over expenses 2,940,283

Change in net assets with donor restrictions

Contributions	129,375
Net assets released from donor restriction	(121,731)
Change in net assets with donor restriction	7,644

Change in net assets 2,947,927

Net Assets

Beginning of year	21,225,955
End of year	\$ 24,173,882

See accompanying Notes to the Financial Statements

Indian Health Center of Santa Clara Valley
Statements of Cash Flows
For the year ended June 30, 2020

Cash flows from operating activities:	
Change in net assets	\$ 2,947,927
Adjustments to reconcile increase in net assets to net cash used in provided by operating activities:	
Depreciation and amortization	960,082
Changes in operating assets and liabilities:	
Patient accounts receivable	309,426
Grants, contracts, and other receivables	413,801
Other receivables	1,633
Deposits and prepaid expenses	16,886
Accounts payable and other accrued expenses	(59,670)
Accrued payroll and related liabilities	145,969
Deferred revenue	3,454,406
Estimated third-party payor settlement	1,789,477
Other current liabilities	(159,082)
Net cash provided by operating activities	9,820,855
Cash flows from investing activities:	
Purchase of investments	(1,519,552)
Purchases of property and equipment	(678,391)
Net cash used in investing activities	(2,197,943)
Cash flows from financing activities:	
Principal payments on debt borrowings	(29,524)
Net cash used in financing activities	(29,524)
Net increase in cash and cash equivalents	7,593,388
Cash and cash equivalents at beginning of year	9,275,150
Cash and cash equivalents at end of year	\$ 16,868,538
Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	\$ 69,658

See accompanying Notes to the Financial Statements

Indian Health Center of Santa Clara Valley
Notes to the Financial Statements
For the year ended June 30, 2020

Note 1: Nature of Operations

Indian Health Center of Santa Clara Valley (“IHSCCV”) is a California nonprofit community based organization that helps ensure the survival of American Indian Families and the local community by providing quality health care and wellness services by supporting the healing process, by encouraging, educating, and empowering its 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 IHSCCV provides include medical, dental, counseling, community health services, and women, infant, and children (WIC) nutrition programs. The majority of IHSCCV's funding is from Federal, California and County of Santa Clara grants and programs. IHSCCV 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 Services - WIC (Woman-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 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:

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

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, support 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 estimated third-party payor settlements, depreciation and amortization, and allowance for doubtful accounts on patient accounts receivable and grants and contributions receivable.

Indian Health Center of Santa Clara Valley
Notes to the Financial Statements
For the year ended June 30, 2020

Note 2: Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation:

The accompanying financial statements are presented on the basis of net assets without donor restrictions and net assets with donor restrictions.

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

Net assets without donor restrictions: Net assets that are currently available for use and are not subject to donor-imposed stipulations.

Net assets with donor restrictions: Net assets subject to donor-imposed stipulations that may or will be met, either by actions of IHSCSV and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of operations as net assets released from donor restrictions. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as revenue without donor restrictions.

Cash and Cash Equivalents:

IHSCSV considers all highly liquid instruments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. Of the cash balance as of June 30, 2020, \$1,250,000 was covered by federal depository insurance and \$15,618,538 was uninsured.

Investments:

Investments consist of certificate of deposits with maturities of more than three months at the date of acquisition.

Patient Accounts Receivable:

IHSCSV's patient accounts receivable consist of amounts owed by various governmental agencies, insurance companies and private patients. IHSCSV manages the receivables by regularly reviewing its accounts and contracts and by providing appropriate reserves for contractual allowances and uncollectible amounts, based upon historical and expected net collections from each major payor source.

Patient accounts receivable are reported in the financial statements at their expected realizable amounts and adjusted for an allowance for doubtful accounts. Bad debts are provided for using the reserve method and are calculated based on historical payment trends and specific account information. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, IHSCSV analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). Accounts are written off to the bad debt allowance from receivables when confirmation is received that an account has been determined to be uncollectible. At June 30, 2020 IHSCSV estimates that a reserve for doubtful accounts of \$203,957 is necessary for its outstanding patient receivables.

**Indian Health Center of Santa Clara Valley
Notes to the Financial Statements
For the year ended June 30, 2020**

Note 2: Summary of Significant Accounting Policies (Continued)

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), IHSCCV records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Allowance for Doubtful Accounts:

The allowance for doubtful accounts is maintained at a level believed adequate by management to absorb probable losses in the patient accounts receivable and grants and contributions 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, 2020, management has determined that allowances for doubtful accounts are adequate to reduce receivables to their expected 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 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 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 from the accounts are removed. 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 value at the date of donation.

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

Indian Health Center of Santa Clara Valley
Notes to the Financial Statements
For the year ended June 30, 2020

Note 2: Summary of Significant Accounting Policies (Continued)

Revenues and Support:

Government grant revenue is funded primarily by Federal, State, and County grants which generally limit the use of such funds to cover the operating expenses directly related to providing primary care services under contracts and grants. IHSCSV recognizes revenues from grants 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.

IHCSCV receives revenues from third-party payors and patients. IHCSCV 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.

IHCSCV provides medical and dental services to MediCal beneficiaries that are reimbursed under a prospective payment system ("PPS") using prospective per-visit rates established by previous cost reports filed with MediCal. IHCSCV is reimbursed on an interim basis for the difference between its PPS rate and its MediCal Managed Care reimbursement. The final determination of revenues earned from MediCal for each fiscal year is based upon a reconciliation of actual payments and visits that is filed annually with the Health and Human Services Agency, Department of Health Care Services (DHCS). The estimated reimbursement may differ from the actual payments received as determined by the reconciliation reports and can result in a receivable from or a liability due to DHCS. These reconciliation settlement amounts are subject to future audit and final settlement by DHCS, with any audit adjustments recognized by IHCSCV upon final or tentative settlement by DHCS.

IHCSCV 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 IHCSCV on an encounter reporting basis. IHCSCV 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 statement of activities.

Donations and contributions that have been received for a specified purpose but have not yet been spent are classified as net assets with restrictions. When the services are rendered, net assets with restrictions are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from restriction. In-kind contributions are recognized as revenues at the amount that IHCSCV would have to pay for similar items, which approximates its fair value. For the year ended June 30, 2020, IHCSCV received in-kind donations in the form of vaccines amounting to \$1,117,485 from the State of California which is reported as in-kind contributions in the statement of activities.

Indian Health Center of Santa Clara Valley
Notes to the Financial Statements
For the year ended June 30, 2020

Note 2: Summary of Significant Accounting Policies (Continued)

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

Income Tax Status:

IHCSCV is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from California franchise taxes under Section 23701(d) of the Revenue and Taxation Code. It is only required to submit annual federal and state information returns and no provision for Federal and State income taxes is required. IHCSCV 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 IHCSCV in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

IHCSCV's returns are subject to examination by federal and state taxing authorities generally for three years (federal) and four years (state) after they are filed.

Fair Value Measurements:

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. IHCSCV determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value (Level 1, Level 2 and Level 3). This hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels:

- Level 1: quoted market prices are available in active market for identical assets or liabilities as of the reporting date. Certificate of deposits held by IHCSCV are considered to be level 1 investments.
- Level 2: pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.
- Level 3: pricing inputs are unobservable and shall be used to measure fair value to the extent that observable inputs are not available. The inputs into the determination of fair value are based upon the best information available and require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

**Indian Health Center of Santa Clara Valley
Notes to the Financial Statements
For the year ended June 30, 2020**

Note 2: Summary of Significant Accounting Policies (Continued)

Subsequent Events:

IHCSCV has evaluated events and transactions that occurred after June 30, 2020, and through November 16, 2020, the date the financial statements were available to be issued.

There were no subsequent events, that would have a material impact on the financial statements of IHCSCV as of June 30, 2019.

Recently Adopted Accounting Pronouncement:

In June 2018, the FASB issued ASU No. 2018-08, Not-for-Profit-Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions. ASU 2018-08 assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit-Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. IHCSCV adopted ASU 2018-08 during the year ended June 30, 2020, using the modified prospective basis. Upon adoption, many of IHCSCV's grant contracts that had previously been recorded as deferred revenue were recognized as contributions with donor restrictions.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments, which requires an entity to: (i) measure equity investments at fair value through net income, with certain exceptions; (ii) present in OCI the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (iii) present financial assets and financial liabilities by measurement category and form of financial asset; (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price; and (v) assess a valuation allowance on deferred tax assets related to unrealized losses of available-for-sale debt securities in combination with other deferred tax assets. The update provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes. The update also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. The adoption of ASU 2016-01 is effective for IHCSCV beginning July 1, 2019. As a result of the implementation, unrealized gains and losses in equities and trading debt securities are included in other revenue. Net assets were not affected by the implementation.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires the statement of cash flows to explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The adoption of ASU 2016-18 is effective for IHCSCV beginning July 1, 2019.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which provides guidance on eight specific cash-flow issues including: debt repayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. The adoption of ASU 2016-15 is effective for IHCSCV beginning July 1, 2019.

Indian Health Center of Santa Clara Valley
Notes to the Financial Statements
For the year ended June 30, 2020

Note 3: Investments

Investments include the following at June 30, 2020.

Certificates of deposit	\$ 1,688,243
-------------------------	--------------

Investment income is primarily comprised of interest income, which amounted to \$19,778 for the year ended June 30, 2020.

Note 4: Patient Service Revenue, Net

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

- Medicare: Covered services rendered to Medicare program beneficiaries are paid based on a prospective payment system (PPS). Medicare payments under the FQHC PPS are 80% of the lesser of the health center's actual charge or the applicable PPS rate (patient coinsurance will be 20% of the lesser of the health center's actual charge or the applicable PPS rate). Accordingly, to the extent a health center's charge is below the applicable PPS rate, Medicare FQHC reimbursement can be limited.
- Medi-Cal: Medical and dental services rendered to Medi-Cal beneficiaries are paid under the Prospective Payment System (PPS) using rates established by IHCSCV's "Base Year" cost report 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 IHCSCV's scope of service.
- Managed care contracts and other: IHCSCV has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to IHCSCV under these agreements includes such methods as reimbursed costs, discounts from established rates, pre-determined fees for service, percentage of charges, and others.

Note 5: Grants and Contributions Receivable

Grants and contributions receivable were comprised of the following at June 30, 2020:

County of Santa Clara	\$ 770,228
Federal – Indian Health Services	34,837
Federal – HRSA Section 330 Grant	236,622
Federal – Women, Infants, and Children Program	418,622
Others	437,972
Total	\$ 1,898,281

**Indian Health Center of Santa Clara Valley
Notes to the Financial Statements
For the year ended June 30, 2020**

Note 6: Property and Equipment

Property and equipment at June 30, 2020 was comprised of the following:

Land and land improvements	\$ 3,985,126
Building and building improvements	4,985,390
Leasehold improvements	9,436,311
Furniture and equipment	417,031
Computer equipment	213,145
Vehicles	100,459
Construction in progress	159,329
Subtotal	<u>19,296,791</u>
Accumulated depreciation	<u>(7,309,068)</u>
Total	<u>\$ 11,987,723</u>

Depreciation and amortization expense for the year ending June 30, 2020 was \$960,082. As of June 30, 2020, there were no remaining commitments related to ongoing construction contracts.

Note 7: Concentration of Credit Risk

Financial instruments that potentially subject IHCSCV to concentrations of credit risk are primarily cash and cash equivalents and investments. IHCSCV deposits its cash accounts with several financial institutions, which are insured by the Federal Deposit Insurance Corporation up to legal limits. IHCSCV places its cash deposits with high-credit, quality financial institutions and has certificate of deposit placement programs with one financial institution, which, by policy, limit its credit exposure. IHCSCV has not experienced any losses in such accounts and believes it is not exposed to significant credit risk.

Indian Health Center of Santa Clara Valley operates several locations within the Santa Clara County in California and provides services to patients who reside in these local geographic areas. IHCSCV grants credit without collateral to its patients and third-party payors. Patient accounts receivable from the government agencies administering the Medicare and the Medi-Cal programs and private insurance companies administering the Medi-Cal Managed Care programs represent the only concentrated group of credit risk for IHCSCV and management does not believe that there are significant credit risks associated with these agencies and private insurance companies. Other contracted and private pay patient receivables consist of payors and individuals involved in diverse activities, subject to differing economic conditions and does not represent any concentrated risks to IHCSCV. Significant concentrations of net patient accounts receivable as of June 30, 2020 were as follows:

Medi-Cal	83%
Medicare	12%
Other public programs	1%
Commercial insurance	1%
Self pay	3%
	<u>100%</u>

For the year ended June 30, 2020, IHCSCV received \$2,538,758 in Community Health Center grants from the Department of Health and Human Services, which represents 7% of the total revenue received.

Indian Health Center of Santa Clara Valley
Notes to the Financial Statements
For the year ended June 30, 2020

Note 8: Notes Payable

Notes payable are detailed as follows:

First Republic Bank Promissory Note – A fixed term / adjustable rate loan payable in monthly installments with a maturity date of November 1, 2025. Fixed rate interest rate (3.95%) period is until September 1, 2020. Following September 1, 2020 until the maturity date, lender shall increase or decrease the Note Rate in accordance with the loan’s terms and conditions. The new Note Rate which becomes effective on each Interest Change Date shall be equal to the Current Index applicable to the Interest Change Date plus 2.80% per annum rounded upward to the next highest 0.125% unless the result of such addition is equal to a number which is a multiple of 0.125%. The note is collateralized by real property at 2039 Forest Avenue, Unit 105, 204, and B2, San Jose, California 95128. \$ 1,705,778

Vehicle Loan – The loan of \$27,739 bears interest at 6.99% per annum with monthly principal and interest payments of \$549.14 and matures on June 1, 2025. 23,286

Total Long-term debt	\$ 1,729,064
Less: current portion	(59,812)
	\$ 1,669,252

Future principal payments are as follows for the year ended June 30:

Year	Principal
2021	\$ 59,812
2022	62,347
2023	64,993
2024	67,775
2025	70,639
Thereafter	1,403,519
Total	\$ 1,729,065

During the year ended June 30, 2020 IHCSCV paid interest of \$69,658.

**Indian Health Center of Santa Clara Valley
Notes to the Financial Statements
For the year ended June 30, 2020**

Note 9: Deferred Revenue

Deferred revenue consisted of the following at June 30, 2020, respectively:

Paycheck Protection Program	\$ 2,692,243
HHS Provider Relief Funds	793,410
Total	<u>\$ 3,485,653</u>

Note 10: Net Assets with Donor Restrictions

Net assets with donor restrictions were comprised of the following programs at June 30, 2020:

Palo Alto Medical Foundation	\$ 50,000
Silicon Valley Community Found	19,250
Other	19,640
Total	<u>\$ 88,890</u>

As net assets with donor restrictions are expended, the net assets released from restrictions are recognized as revenue without donor restrictions. As of June 30, 2020 net assets released from donor restrictions consist of the following:

Palo Alto Medical Foundation	\$ 50,000
Direct Relief	39,734
Other	31,997
Total	<u>\$ 121,731</u>

Note 11: Pension Plan

IHCSCV maintains a 401(k) pension plan ("Plan") covering all employees who are eligible to participate in the plan. All regular employees who have completed 60 days of service are eligible to enroll in the Plan on the first day of the month following eligibility. 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. The Plan provides for a match of 100% up to 3% of compensation and 50% between 3% and 5% of compensation. The match is fully vested immediately. IHCSCV contributed \$410,361 during the year ended June 30, 2020 accounted for in employee benefits.

Indian Health Center of Santa Clara Valley
Notes to the Financial Statements
For the year ended June 30, 2020

Note 12: Malpractice Insurance

IHCSCV as an eligible Federally Qualified Health Center (FQHC) is covered under the Federal Tort Claims Act (FTCA) through submission of an annual renewal requiring application to the U.S. Department of Health and Human Services, Health Resources and Services Administration, Bureau of Primary Health Care. IHCSCV, 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, IHCSCV 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, 2020.

Note 14: Commitments and Contingencies

Operating Leases:

IHCSCV leases certain facilities and equipment under operating leases expiring at various times through 2025. The future minimum lease payment for the succeeding years under these committed lease arrangements is approximately: \$690,438 in 2021; \$714,847 in 2022; \$516,942 in 2023; \$426,812 in 2024; and \$278,919 in 2025. Rent expense was \$ 1,020,644 for the year ending June 30, 2020.

Risks and Uncertainties:

Future funding for IHCSCV'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.

IHCSCV 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, management does not anticipate any material questioned costs for the contracts and grants administered during the period.

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, and 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 IHCSCV 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 IHCSCV's financial position.

Indian Health Center of Santa Clara Valley
Notes to the Financial Statements
For the year ended June 30, 2020

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, IHCSVCV believes that it has complied with the conditions of the grants and no significant liabilities are expected to result from an audit.

Note 16: Liquidity and Availability of Resources

As part of IHCSVCV's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Patient accounts receivable, grants and contributions receivable and other receivables consist of amounts expected to be received within one year from June 30, 2020. These receivables will be available to support general operations of IHCSVCV.

The following is a quantitative disclosure which describes financial assets available as of June 30, 2020 to fund general expenditures and other obligations for one year:

Cash and cash equivalents	\$ 16,868,538
Investments	1,688,243
Patient accounts receivable, net	2,686,452
Grants and contributions receivable	1,898,281
Other receivables	456,257
Total financial assets	<u>23,597,771</u>
Deferred revenue	(3,485,653)
Net assets with donor restrictions	<u>(88,890)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 20,023,228</u>

In addition to financial assets available to meet general expenditures over the next 12 months, IHCSVCV operates with a balanced budget and anticipates collecting sufficient patient service revenue to cover general expenditures not covered by grants or donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of IHCSVCV's cash and shows positive cash generated by operations for fiscal year 2020.

Note 17: Estimated Third-Party Payor Settlement

Medicare and Medi-Cal reimburse IHCSVCV at a tentative rate with a final settlement determined after the audit of the annual cost report submitted by IHCSVCV. Depending on the result of the audit, IHCSVCV might be obligated to refund part of the reimbursement to Medicare and Medi-Cal or vice versa. As of June 30, 2020 IHCSVCV had accrued a receivable for \$1,567,626 related to unsettled reports. IHCSVCV also recorded a liability of \$5,612,622 related to unsettled reports from third parties.

Indian Health Center of Santa Clara Valley
Notes to the Financial Statements
For the year ended June 30, 2020

Note 18: Functional Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and facility costs, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort. Expenses for the year ended June 30, 2020 include:

	Program Services					Total Program Services	Management and General	Total
	Medical Services	Dental Services	Nutrition Services	Counseling Services	Community Services			
Salaries and wages	\$ 9,546,851	\$ 2,118,903	\$ 452,484	\$ 1,633,058	\$ 453,718	\$ 14,205,014	\$ 2,697,975	\$ 16,902,989
Employee benefits	2,203,755	522,374	131,100	325,264	116,894	3,299,387	551,504	3,850,891
Payroll taxes	689,154	154,372	33,872	117,360	33,748	1,028,506	184,300	1,212,806
Total personnel expenses	12,439,760	2,795,649	617,456	2,075,682	604,360	18,532,907	3,433,779	21,966,686
Contracted services	1,120,100	13,941	311	277,383	800	1,412,535	165,055	1,577,590
Supplies	1,839,232	183,004	14,281	45,294	10,462	2,092,273	93,811	2,186,084
Rent and leases	673,128	16,523	76,044	211,327	12,947	989,969	206,129	1,196,098
Depreciation and amortization	579,479	231,577	2,962	71,893	69,129	955,040	5,042	960,082
Occupancy	533,734	66,928	25,532	79,716	44,268	750,178	74,464	824,642
Professional services	420,027	67,363	3,913	67,383	41,518	600,204	88,806	689,010
Dues and subscriptions	278,588	51,591	4,717	36,912	1,175	372,983	131,026	504,009
Communications	157,328	34,269	7,499	27,624	11,640	238,360	67,807	306,167
Interest	55,030	14,628	-	-	-	69,658	-	69,658
Insurance	78,325	17,374	4,752	10,788	4,384	115,623	32,985	148,608
Other operating expenses	457,438	177,321	25,392	186,180	25,895	872,226	571,156	1,443,382
Total expenses	\$ 18,632,169	\$ 3,670,168	\$ 782,859	\$ 3,090,182	\$ 826,578	\$ 27,001,956	\$ 4,870,060	\$ 31,872,016

SINGLE AUDIT REPORTS

**Indian Health Center of Santa Clara Valley
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2020**

Federal Grant / Program Title	Federal CFDA Number	Pass-Through Identification Number	Expenditures
U.S. Department of Health and Human Services			
Direct Programs:			
Community Health Cluster	*93.224	N/A	\$ 2,411,677
COVID-19 Fed CARES	*93.224	N/A	10,042
COVID-19 Fed ECT	*93.224	N/A	47,606
COVID-19 Community Health Center Cluster, Section 330	*93.224	N/A	69,433
Special Diabetes Program for Indians Diabetes Prevention and Treatment Projects	93.237	N/A	300,447
Urban Indian Health Services	93.193	N/A	229,081
Indian Health Care Improvement	93.193	N/A	993,606
COVID-19 Indian Health Care Improvement	93.193	N/A	1,099,867
Substance Abuse and Mental Health Services Projects of Regional and National Significance - Native Connections	93.243	N/A	246,756
Substance Abuse and Mental Health Services Projects of Regional and National Significance - Circle of Care	93.243	N/A	384,074
Indian Health Services Tribal Practices for Wellness	93.762	N/A	147,448
Indian Health Services BH21	93.918	N/A	420,007
Total Direct Programs			<u>6,360,044</u>
Passed Through:			
National Council of Urban Indian Health			
CDC Covid-19	93.421	1802020SUPP20	187,344
Native American Health Center:			
Substance Abuse and Mental Health Services Projects of Regional and National Significance - Red Vision	93.243	SP 20694	88,104
Substance Abuse and Mental Health Services Projects of Regional and National Significance - Native Youth Wellness Initiative	93.243	1H79SM062909	17,431
Total U.S. Department of Health & Human Services			<u>6,652,923</u>
U.S. Department of Agriculture			
Passed Through:			
California Department of Health and Human Services:			
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	19-10151 & 15-10085 A04	815,699
Federal Communications Commission			
COVID-19 Telehealth Program	32.006	N/A	11,317
Total federal financial assistance			<u>\$ 7,479,939</u>

* Denotes major program

Indian Health Center of Santa Clara Valley
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2020

Note A: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) summarizes the expenditures of Indian Health Center of Santa Clara Valley (“IHCSCV”) under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of IHCSCV, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows for IHCSCV.

Note B: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. IHCSCV elected not to use the de minimis cost rate because it has a negotiated indirect cost rate in place.

**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**

Independent Auditor's Report

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

We have audited, 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, the financial statements of Indian Health Center of Santa Clara Valley ("IHCSCV"), which comprise the balance sheet as of June 30, 2020 and the related statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 16, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Indian Health Center of Santa Clara Valley 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 IHCSCV's internal control. Accordingly, we do not express an opinion on the effectiveness of IHCSCV'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 IHCSCV'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 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.

CAW. LLP

Fresno, California
November 16, 2020

**Report on Compliance For Each Major Federal Program
And Report on Internal Control Over Compliance
Required by the Uniform Guidance**Independent Auditor's Report

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 ("IHSCCV") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of IHSCCV's major federal programs for the year ended June 30, 2020. IHSCCV'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 federal statutes, regulations, and the terms and conditions of federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of IHSCCV'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 IHSCCV'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 IHSCCV'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 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, 2020.

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 IHCSVC'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 the Uniform Guidance, 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 IHCSVC'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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CAW. LLP

Fresno, California
November 16, 2020

**Indian Health Center of Santa Clara Valley
Schedule of Findings and Questioned Costs
For the year ended June 30, 2020**

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal Control over financial reporting: Material weakness identified?	_____ yes <u> X </u> no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ yes <u> X </u> None Reported
Noncompliance material to financial statements noted?	_____ yes <u> X </u> no

Federal Awards

Internal control over major programs: Material weakness identified?	_____ yes <u> X </u> no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ yes <u> X </u> None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____ yes <u> X </u> no

Major Programs

	<u>CFDA Number</u>
Community Health Cluster	93.224
COVID-19 Fed CARES	93.224
COVID-19 Fed ECT	93.224
COVID-19 Community Health Center Cluster, Section 330	93.224
Dollar threshold used to distinguish Types A and B programs	\$ 750,000
Auditee qualified as low-risk auditee?	<u> X </u> yes _____ no

**Indian Health Center of Santa Clara Valley
Schedule of Findings and Questioned Costs (continued)
For the year ended June 30, 2020**

II. Financial Statement Findings

None Reported

III. Federal Award Findings And Questioned Costs

None Reported

Prior Year Findings And Questioned Costs

None Reported