INDIAN HEALTH CENTER OF SANTA CLARA VALLEY

(A California Nonprofit Organization)

Independent Auditors’ Report
Financial Statements
Schedule of Expenditures of Federal Awards
Internal Control and Compliance
Years Ended June 30, 2011 and 2010

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY
(A California Nonprofit Organization)
INDEPENDENT AUDITORS' REPORT
FINANCIAL STATEMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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JUNE 30, 2011 and 2010

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SABOCOR & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Indian Health Center of Santa Clara Valley, a California nonprofit organization (the "Center") as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Indian Health Center of Santa Clara Valley at June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2011 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Sabocor & Co., LLP

Los Angeles, California
September 27, 2011

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

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011
(With Comparative Totals for 2010)

	2011	[2010 Totals (Memorandum Only)]
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,993,340	$ 1,971,676
Investments (Note 3)	1,832,028	2,674,502
Accounts receivable, net (Note 4)	609,036	622,441
Grants receivable, net (Note 5)	1,219,827	1,310,903
Deposits and prepaid expenses	38,990	32,716
Total current assets	6,693,221	6,612,238
Property and equipment, net (Notes 6, 9 and 10)	5,298,233	4,400,117
Total assets	$ 11,991,454	$ 11,012,355
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 144,206	$ 194,681
Accrued salaries (Note 8)	93,253	109,379
Accrued personal time off (Note 7)	365,027	324,042
Deposits held on behalf of others	3,600	15,000
Current portion of note payable (Note 9)	46,911	43,683
Total current liabilities	652,997	686,785
Long-term note payable (Note 9)	338,437	669,115
Total liabilities	991,434	1,355,900
Net assets		
Unrestricted (Note 10)	11,000,020	9,643,366
Temporarily restricted (Note 11)	-	13,089
Total net assets	11,000,020	9,656,455
Total liabilities and net assets	$ 11,991,454	$ 11,012,355

See accompanying notes to financial statements.

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

STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011
(With Comparative Totals for 2010)

	Unrestricted	Temporarily Restricted	Total 2011	Total 2010 Totals [Memorandum Only]
Revenues, gains and support:				
Government grant revenues	$ 5,158,019	$ -	$ 5,158,019	$ 5,083,082
Service revenues, net	4,875,375		4,875,375	4,507,177
Donations and contributions	549,171		549,171	485,706
Interest income	47,774		47,774	49,213
Rental income (Note 16)	28,800		28,800	6,186
Fund raising revenues	16,123		16,123	19,521
Miscellaneous income	18,728		18,728	33,997
Net assets released from restrictions (Note 12)	13,089	(13,089)	-	-
Total revenues, gains and support	10,707,079	(13,089)	10,693,990	10,184,882
Expenses:				
Medical services	3,822,220		3,822,220	3,655,179
Dental services	973,641		973,641	826,654
Nutrition services	861,176		861,176	855,574
Counseling services	1,690,514		1,690,514	1,758,901
Community services	1,027,270		1,027,270	1,019,092
Management and general	825,785		825,785	834,045
Building and equipment	149,819		149,819	-
Fund raising	-		-	8,890
Total expenses	9,350,425	-	9,350,425	8,958,335
Change in net assets	1,356,654	(13,089)	1,343,565	1,226,547
Net assets at beginning of year	9,643,366	13,089	9,656,455	8,429,908
Net assets at end of year	$ 11,000,020	$ -	$ 11,000,020	$ 9,656,455

See accompanying notes to financial statements.

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

SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011
(With Comparative Totals for 2010)

	Program Services						Support Services			Total	
	Medical Services	Dental Services	Nutrition Services	Counseling Services	Community Services	Total Program Services	Management and General	Building and Equipment	Total Support Services	2011	2010 Totals [Memorandum Only]
Salaries (Note 7)	$ 2,111,032	$ 614,745	$ 459,388	$ 919,903	$ 432,745	$ 4,537,813	$ 862,133	$ -	$ 862,133	$ 5,399,946	$ 5,095,100
Supplies	464,461	50,792	41,738	34,791	31,813	623,595	63,564	-	63,564	687,159	808,374
Employee benefits (Note 8)	219,777	44,869	65,364	124,475	57,622	512,107	103,105	-	103,105	615,212	549,705
Contractual services	25,893	200	(3,316)	16,754	209,875	249,406	107,195	104,297	211,492	460,898	233,988
Payroll taxes	144,683	45,276	34,439	58,869	30,205	313,472	60,879	-	60,879	374,351	358,672
Rent and leases (Note 13)	41,856	62	107,775	104,597	2,337	256,627	66,538	-	66,538	323,165	269,052
Depreciation and amortization (Note 6)	89,299	17,224	-	49,633	48,021	204,177	4,392	-	4,392	208,569	201,263
Professional fees	76,087	19,737	1,485	22,314	2,209	121,832	52,536	(250)	52,286	174,118	128,472
Dues and subscriptions	44,549	15,454	6,719	12,019	4,374	83,115	63,242	1,224	64,466	147,581	77,974
Occupancy	48,036	21,171	13,698	12,404	12,989	108,298	30,531	-	30,531	138,829	127,533
Communications	36,852	7,095	13,260	26,369	13,698	97,274	24,160	-	24,160	121,434	159,939
Bad debts (Note 4)	113,296	-	-	-	-	113,296	-	-	-	113,296	229,868
Recruitment and training	47,805	3,700	10,547	8,945	3,505	74,502	16,312	-	16,312	90,814	79,039
Taxes, licenses and permits	8,650	440	375	10,155	8,061	27,681	1,684	44,548	46,232	73,913	51,590
Dental and laboratory fees	25,510	29,057	-	-	776	55,343	6,298	-	6,298	61,641	49,257
Travel	1,278	41	8,404	18,477	20,206	48,406	12,081	-	12,081	60,487	83,897
Repairs and maintenance	16,607	6,299	2,817	13,673	4,633	44,029	9,163	-	9,163	53,192	96,552
Interest (Note 9)	-	-	-	20,327	20,167	40,494	-	-	-	40,494	73,474
Food	2,019	701	856	13,194	8,331	25,101	13,293	-	13,293	38,394	53,112
Insurance (Note 15)	(63)	1,364	574	13,822	10,851	26,548	1,952	-	1,952	28,500	65,910
Printing	5,147	604	4,946	3,754	7,191	21,642	2,759	-	2,759	24,401	42,810
Postage	42	23	20	130	954	1,169	14,397	-	14,397	15,566	12,336
Small equipment purchase	-	10,208	1,615	165	-	11,988	-	-	-	11,988	12,293
Advertising	-	-	3,120	-	-	3,120	(250)	-	(250)	2,870	16,895
Legal	-	-	-	-	-	-	-	-	-	-	1,030
Miscellaneous	4,649	363	3,136	51,349	12,492	71,989	11,618	-	11,618	83,607	80,200
Allocated Overhead	294,755	84,216	84,216	154,395	84,215	701,797	(701,797)	-	(701,797)	-	-
	$ 3,822,220	$ 973,641	$ 861,176	$ 1,690,514	$ 1,027,270	$ 8,374,821	$ 825,785	$ 149,819	$ 975,604	$ 9,350,425	$ 8,958,335

See accompanying notes to financial statements.

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

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011
(With Comparative Totals for 2010)

	2011	2010 Totals [Memorandum Only]
Cash flows from operating activities:		
Change in net assets	$ 1,343,565	$ 1,226,547
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	208,569	201,263
Provision for doubtful accounts	113,296	229,868
Change in operating assets and liabilities:		
(Increase)/Decrease in:		
Accounts receivable	(99,891)	(364,057)
Grants receivable	91,076	82,181
Deposits and prepaid expenses	(6,274)	(13,728)
Increase/(Decrease) in:		
Accounts payable	(50,475)	19,281
Accrued salaries and fringe benefits	(16,126)	(92,627)
Accrued personal time off	40,985	37,376
Deposits held in behalf of others	(11,400)	13,190
Total adjustments	269,760	112,747
Net cash provided by operating activities	1,613,325	1,339,294
Cash flows from investing activities:		
Purchase of property and equipment	(1,106,685)	-
Matured (additional) investments	842,474	(1,460,447)
Net cash used in investing activities	(264,211)	(1,460,447)
Cash flows from financing activities:		
Principal payments of long-term note payable	(327,450)	(483,705)
Net cash used in financing activities	(327,450)	(483,705)
Net increase (decrease) in cash and cash equivalents	1,021,664	(604,858)
Cash and cash equivalents at beginning of year	1,971,676	2,576,534
Cash and cash equivalents at end of year	$ 2,993,340	$ 1,971,676
Supplemental cash flow information:		
Cash paid for interest	$ 40,494	$ 73,474
Cash paid for income taxes	$ -	$ -

See accompanying notes to financial statements.

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.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

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

Basis of Presentation

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

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

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

- Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Center and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

- Permanently restricted net assets – Net assets subject to donor-imposed restrictions that they be maintained permanently by the Center. Generally, the donors of such assets permit the Center to use all or part of the income earned on any related investments for general or specific purposes. There were no permanently restricted net assets at June 30, 2011 and 2010.

Use of Estimates

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

Note 2 – Summary of Significant Accounting Policies - Continued

Concentration of Credit Risk

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

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

Fund Accounting

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

Cash and Cash Equivalents

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

Investments

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

Accounts Receivable

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

Allowance for Doubtful Accounts

The allowance for doubtful accounts is maintained at a level believed adequate by management to absorb probable losses in the accounts receivable and grants receivable. Management's determination of the adequacy of the allowance is based on periodic evaluations of its receivables, its composition, past loss experience, current economic conditions, and other relevant factors and circumstances, which may affect the ability of patients to meet their obligations. At June 30, 2011 and 2010, management determined that allowances for doubtful accounts are adequate to reduce receivables at its net realizable value.

Note 2 – Summary of Significant Accounting Policies - Continued

Property and Equipment

Property and equipment are stated at cost at the date of acquisition less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the approximate useful lives of the assets, ranging from 3 to 20 years. Leasehold improvements are amortized over the shorter of the term of the lease or useful life of the improvement, usually over 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 are eliminated from the accounts. Any resulting gains and losses are included in the determination of changes in net assets. Items received by donation, gift or bequest are stated at fair market value at the date of donation.

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

Accrued Personal Time Off

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

Revenues and Support

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

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

Donations and contributions that have been received for a specified purpose but have not yet been spent are recognized as temporarily restricted net assets. When the services are rendered, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. In-kind contributions are recognized as revenues at the amount that the Center would have to pay for similar items, which approximates its fair market value. For the years 2011 and 2010, the Center received in kind donation in the form of vaccines amounting to approximately $294,261 and $220,000, 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.

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

Note 2 – Summary of Significant Accounting Policies - Continued

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.

Functional Allocation of Expenses

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

Advertising Costs

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

Income Taxes

The Center is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the Revenue and Taxation Code of the State of California, therefore, no provision for income taxes has been provided. The Center files the necessary informational returns. Income from certain activities not directly related to the Center's tax-exempt purpose is subject to taxation as unrelated business income, however, during the years ended June 30, 2011 and 2010, such activities are very minimal.

The Center adopted certain provisions of Accounting Standards Codification No. 740 (previously reported as Financial Accounting Standards Board Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes"* ("FIN 48") on January 1, 2009. As of June 30, 2011 and 2010, the Center has identified no uncertain tax position for which it is reasonably possible that the amount of unrecognized tax benefits will significantly increase or decrease within 12 months. The Center is no longer subject to U.S. federal or state examinations by tax authorities for years before 2008 and 2007, respectively.

Fair Value of Financial Instruments

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

Note 2 – Summary of Significant Accounting Policies - Continued

Subsequent Events

The Center evaluated subsequent events through September 27, 2011, the date the financial statements were available to be issued.

Prior Year Summarized Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class [2010 Totals (Memorandum Only)] to facilitate financial analysis. Such information may not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

Note 3 – Investments

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

The maturity distribution of Investments at June 30 follows:

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

	2010	
	Amortized Cost	Fair Value
Less than twelve months	$ 2,674,502	$ 2,674,502
One to five years	-	-
Five to ten years	-	-
Over ten years	-	-
	$ 2,674,502	$ 2,674,502

Note 4 – Accounts Receivable, Net

Accounts receivable consists of the following:

	2011	2010
Medi-Cal	$ 501,429	$ 490,108
Sliding Scale	248,111	106,578
Managed Care	150,207	376,477
Medicare	82,087	188,821
Child Health and Disability Prevention	66,074	88,185
State-Only Family Planning	49,207	24,784
Private insurance	30,607	27,344
Valley Care	24,256	83,470
Healthy Families	21,618	16,502
Comprehensive Perinatal Services Program	-	87,087
Others	142,621	172,885
Total accounts receivable	1,316,217	1,662,241
Less allowance for doubtful accounts	(707,181)	(1,039,800)
Net accounts receivable	$ 609,036	$ 622,441

Changes in the allowance for doubtful accounts were as follows:

	2011	2010
Balance, beginning of year	$ 1,039,800	$ 1,005,219
Provision charged to operations	113,296	229,868
Charge offs	(445,915)	(195,287)
Balance, end of year	$ 707,181	$ 1,039,800

Note 5 – Grants Receivable - Net

Grants receivable consists of the following:

	2011	2010
County of Santa Clara	$ 493,595	$ 348,110
Federal - Indian Health Services	338,019	224,541
Federal - Section 330 Grant	257,465	401,664
Federal - Women, Infants and Children Program	159,020	219,948
Federal - Center for Substance Abuse Prevention	82,007	67,163
City of San Jose	62,480	25,312
State of California	-	21,014
Others	54,129	82,500
Total grants receivable	1,446,715	1,390,252
Less allowance for doubtful accounts	(226,888)	(79,349)
Net grants receivable	$ 1,219,827	$ 1,310,903

Changes in the allowance for doubtful accounts were as follows:

	2011	2010
Balance, beginning of year	$ 79,349	$ 95,848
Provision charged to operations	-	-
Recoveries	147,539	35,343
Charged off	-	(51,842)
Balance, end of year	$ 226,888	$ 79,349

Note 6 – Property and Equipment, Net

Property and equipment consists of the following:

	2011	2010
Land	$ 2,254,126	$ 1,646,812
Building	3,956,890	3,457,543
Furniture and equipment	34,653	34,653
Vehicles	54,434	54,434
Leasehold improvements	490,434	490,434
Total cost	6,790,537	5,683,876
Accumulated depreciation and amortization	1,492,304	1,283,759
Net book value	$ 5,298,233	$ 4,400,117

Depreciation and amortization expense for the years ended June 30, 2011 and 2010 amounted to $208,569 and $201,263, respectively.

Note 7 – Compensated Absences

Accumulated unpaid personal time off are recognized as liability by the Center. The liability is recognized in the program to which the liability relates. The total liability for personal time off as of June 30, 2011 and 2010 amounted to $365,027 and $324,042, respectively.

The Center operates a Personal Time Off (PTO) System where the employees gained hours for unused vacation and sick leaves. The accrued personal time are paid out at separation or severance of employment of the employees from the Center. Vacation and sick leaves charged to salaries during the years ended June 30, 2011 and 2010 amounted to $40,985 and $37,376, respectively.

Note 8 – Pension Plan

The Center maintains a 401(k) pension plan covering all employees who are eligible to participate in the plan. An employee is eligible for the 401(k) plan upon the first day of the month following the date of hire. An eligible employee may contribute up to a maximum of 100% of compensation subject to the maximum dollar limit determined by Internal Revenue Service each year. Upon attainment of age 21 and completion of a year of service, the 401(k) plan provides for a Center match of up to 2.5% of the participants' salary. The Center contributed $68,079 and $43,558 during the years ended June 30, 2011 and 2010, respectively, accounted for in employee benefits. The match has a 4-year graduated vesting provision.

Note 9 – Long-Term Note Payable

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

The principal amount outstanding as of June 30, 2011 was $385,348 which was classified as follows:

Total amount outstanding	$	385,348
Less current maturities included in current liabilities		(46,911)
Long-term portion of notes payable	$	338,437

The Center was able to pay $215,000 and $443,028 over and above monthly scheduled principal and interest payments of $11,765 due to better cash flows for the years ended June 30, 2011 and 2010, respectively.

The terms of the note require the Center to maintain certain financial measurements and conditions, among others, a debt service coverage ratio of 1.20 to 1.00 to be tested annually. Debt Service Coverage Ratio is defined as the Center's net operating income for the most recent twelve months period divided by the debt service (i.e., principal and interest payments) for the same period. At June 30, 2011 and 2010, management believes that the Center was in compliance with those requirements.

As of June 30, 2011, future principal payments on long-term note payable is as follows:

Year ended June 30,		
2012	$	46,911
2013		50,377
2014		54,099
2015		58,097
2016		62,390
Thereafter		113,474
Balance, end of year	$	385,348

For the years ended June 30, 2011 and 2010, the aggregate amount of interest from these borrowings included in the statement of activities amounted to $40,494 and $73,474, respectively.

Note 10 – Unrestricted Net Assets

The unrestricted net assets as of June 30, 2011 and 2010 include net book value of property and equipment of $5,298,233 and $4,400,117, respectively, which is not considered to be liquid asset.

Note 11 – Temporarily Restricted Net Assets

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

Temporarily restricted net assets at June 30, 2010 consist of contribution received from Susan Komen Foundation for $13,089.

Note 12 – Net Assets Released From Restrictions

During the years ended June 30, 2011 and 2010, temporarily restricted net assets of $13,089 and $30,000, respectively, were released from donor restrictions through passage of time.

Note 13 – Commitments

The Center leases its satellite program sites in Santa Clara County, California under non-cancellable operating leases expiring in various years through fiscal year 2015. These leases provide for annual escalation charges and renewal options.

Aggregate future minimum lease commitments for the non-cancellable facility leases having remaining terms in excess of one year as of June 30, 2011, for each of the next five years and in the aggregate are as follows:

Year ended June 30,		
2012	$	303,045
2013		251,414
2014		176,215
2015		67,072
Thereafter		-
Total	$	797,746

Rent expense related to these lease commitments for the years ended June 30, 2011 and 2010 amounted to $253,159 and $219,021, respectively.

Note 14 - Contingencies

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

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

Note 14 – Contingencies - Continued

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

Note 15 – Insurance Coverage

At June 30, 2011, the Center carried the following insurance coverage: (a) professional liability insurance of $2 million per occurrence and $4 million aggregate, in which premiums were paid through April 1, 2012; (b) workmen's compensation and employer's liability insurance coverage of $1 million per employee, per accident and in aggregate, in which premiums were paid through April 1, 2012; (c) directors' and officers' liability insurance of $2 million, in which premiums were paid through March 22, 2012, and (d) automobile insurance coverage of $1 million and property insurance coverage of $7.581 million – premiums of which were paid through July 1, 2012.

Note 16 – Rental Income

For the year ended June 30, 2011, the Center received rental income from its newly purchased buildings from its previous owner. The purchase agreement included the right of the previous owner to rent back the buildings for up to 3 months after the sale. The lease ended on August 31, 2011 without extension. Rental income earned for the year ended June 30, 2011 amounted to $28,800.

For the year ended June 30, 2010, the Center received rental income from the leased out portion of one of its building to one tenant. The non-cancellable lease agreement was entered between the prior owner of the building and its tenants. The lease expired on March 2010 without extension. Rental income earned for the year ended June 30, 2010 amounted to $6,186.

Note 17 – Significant Transactions

During the year, the Center paid $50,510 in computer support fees, and $72,578 in security services.

Note 18 – Subsequent Event

On September 13, 2011, the Center entered into an agreement wtih a construction contractor for the Meridian Clinic renovation at a contract sum of $1,202,130. Substantial completion of the project is expected to be achieved on or about March 31, 2012. As of September 13, 2011, the estimated total project cost was approximately $1,468,000. The difference between the contract sum, which is funded by Community Development Block Grant (CDBG) and the total project cost, which amounts to approximately $268,000 represents the 20% match required under the CDBG program, of which, $80,448 was paid during the year ended June 30, 2011.

SUPPLEMENTARY INFORMATION

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

STATEMENT OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Indian Health Services - Urban Indian Health Services	93.193		$ 910,498
Consolidated Health Centers – Section 330 Grant	93.224		692,259
Competitive Special Diabetes Program for Indians	93.237		326,554
Special Diabetes Program for Indians	93.237		217,626
ARRA - HRSA – Capital Improvement Program (*)	93.703		161,198
HRSA – Health Care and Other Facilities	93.887		144,678
ARRA - HRSA – Increased Demand for Services (*)	93.703		109,785
			2,562,598
Pass-through from Native American Health Center:			
Substance Abuse and Mental Health Services Administration-One with All (CSAP)	93.243	N/A	303,274
TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			2,865,872
U. S. DEPARTMENT OF AGRICULTURE			
Pass-through from the State Department of Health and Human Services:			
Supplemental Food Program - Women, Infants and Children (WIC) Nutrition	10.557		810,694
TOTAL U. S. DEPARTMENT OF AGRICULTURE			810,694
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 3,676,566

N/A: Not Available

Note:

Basis of Presentation

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

(*) Represents American Recovery and Reinvestment Act (ARRA) expenditures.

SABOCOR & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of Indian Health Center of Santa Clara Valley, a Nonprofit Organization, (the "Center") as of and for the year ended June 30, 2011 and have issued our report thereon dated September 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

Sabocon & Co., LLP

Los Angeles, California
September 27, 2011

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

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

Compliance

We have audited Indian Health Center of Santa Clara Valley's, a Nonprofit Organization, (the "Center") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2011. The Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

In our opinion, the Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Sabocon & Co., LLP

Los Angeles, California
September 27, 2011

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY
(A California Nonprofit Organization)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Section I – Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
• Material weakness identified	No
• Significant deficiencies identified that are not considered to be material weakness	None reported
Type of auditors' report issued on compliance for major programs	*Unqualified*
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:

CFDA/Control Number	Name of Federal/Local Program
93.193	Indian Health Services - Urban Indian Health Services
93.224	Consolidated Health Centers – Section 330 Grant
93.237	Competitive Special Diabetes Program for Indians
93.237	Special Diabetes Program for Indians
93.243	Substance Abuse and Mental Health Services Administration
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
(A California Nonprofit Organization)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FOR THE YEAR ENDED JUNE 30, 2011

Section II – Financial Statements Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY
(A California Nonprofit Organization)
STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

There were no findings reported in the prior year.