

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

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

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY, INC.  
(A California Nonprofit Organization)  
REPORT OF INDEPENDENT AUDITORS  
FINANCIAL STATEMENTS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
INTERNAL CONTROL AND COMPLIANCE  
JUNE 30, 2010

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## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying statement of financial position of Indian Health Center of Santa Clara Valley, Inc., a California nonprofit organization (the "Center") as of June 30, 2010, and the related statements of activities and cash flows for the year 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 audit. The financial statements of the Center for the year ended June 30, 2009 were audited by other auditors, whose report dated September 23, 2009 expressed an unqualified opinion on those financial statements.

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 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 audit provides 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, Inc. at June 30, 2010, and the changes in its net assets and its cash flows for the year 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, 2010 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 performed for the purpose of forming an opinion on the basic financial statements of the Center taken as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Los Angeles, California  
September 27, 2010

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY, INC.  
(A California Nonprofit Organization)  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2010  
(WITH COMPARATIVE TOTALS FOR 2009)

	2010	[2009 Totals (Memorandum Only)]
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,971,676	\$ 2,576,534
Investments (Note 3)	2,674,502	1,214,055
Accounts receivable, net (Note 4)	622,441	488,252
Grants receivable, net (Note 5)	1,310,903	1,393,084
Deposits and prepaid expenses	32,716	18,988
<b>Total current assets</b>	<b>6,612,238</b>	<b>5,690,913</b>
Property and equipment, net (Notes 6, 9 and 10)	4,400,117	4,601,380
<b>Total assets</b>	<b>\$ 11,012,355</b>	<b>\$ 10,292,293</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 194,681	\$ 175,400
Accrued salaries and fringe benefits (Note 8)	109,379	202,006
Accrued personal time off (Note 7)	324,042	286,666
Deposits held on behalf of others	15,000	1,810
Current portion of note payable (Note 9)	43,683	57,489
<b>Total current liabilities</b>	<b>686,785</b>	<b>723,371</b>
Long-term note payable (Note 9)	669,115	1,139,014
<b>Total liabilities</b>	<b>1,355,900</b>	<b>1,862,385</b>
<b>Net assets</b>		
Unrestricted (Note 10)	9,643,366	8,399,908
Temporarily restricted (Note 11)	13,089	30,000
<b>Total net assets</b>	<b>9,656,455</b>	<b>8,429,908</b>
<b>Total liabilities and net assets</b>	<b>\$ 11,012,355</b>	<b>\$ 10,292,293</b>

*See accompanying notes to financial statements.*

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY, INC.  
(A California Nonprofit Organization)  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010  
(WITH COMPARATIVE TOTALS FOR 2009)

			Total	
	Unrestricted	Temporarily Restricted	2010	2009 Totals [Memorandum Only]
<b>Revenues, gains and support:</b>				
Government grant revenues	\$ 5,083,082	\$ -	\$ 5,083,082	\$ 4,441,182
Service revenues	4,507,177		4,507,177	4,820,554
Donations and contributions	472,617	13,089	485,706	83,191
Fund raising revenues	19,521		19,521	19,739
Interest income	49,213		49,213	38,802
Rental income (Note 16)	6,186		6,186	33,577
Miscellaneous income	33,997		33,997	88,800
Net assets released from restrictions (Note 12)	30,000	(30,000)	-	-
Total revenues, gains and support	10,201,793	(16,911)	10,184,882	9,525,845
<b>Expenses:</b>				
Medical services	3,655,179		3,655,179	3,489,578
Dental services	826,654		826,654	800,762
Nutrition services	855,574		855,574	882,332
Counseling services	1,758,901		1,758,901	1,487,512
Community services	1,019,092		1,019,092	814,955
Management and general	834,045		834,045	758,944
Fund raising	8,890		8,890	78,210
Total expenses	8,958,335	-	8,958,335	8,312,293
Change in net assets	1,243,458	(16,911)	1,226,547	1,213,552
Net assets at beginning of year	8,399,908	30,000	8,429,908	7,216,356
Net assets at end of year	\$ 9,643,366	\$ 13,089	\$ 9,656,455	\$ 8,429,908

*See accompanying notes to financial statements*

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY, INC.  
(A California Nonprofit Organization)  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2010  
(WITH COMPARATIVE TOTALS FOR 2009)

	Program Services						Support Services			Total	
	Medical Services	Dental Services	Nutrition Services	Counseling Services	Community Services	Total Program Services	Management and General	Fund Raising	Total Support Services	2010	2009 Totals [Memorandum Only]
Salaries (Note 7)	\$ 1,958,982	\$ 559,428	\$ 440,519	\$ 846,551	\$ 444,040	\$ 4,249,520	\$ 837,639	\$ 7,941	\$ 845,580	\$ 5,095,100	\$ 4,663,586
Supplies	458,340	41,985	44,782	141,924	83,773	770,804	37,570	-	37,570	808,374	562,412
Employee benefits (Note 8)	176,169	34,182	54,619	99,585	57,092	421,647	127,391	667	128,058	549,705	444,512
Payroll taxes	136,968	40,694	33,574	56,139	30,053	297,428	60,962	282	61,244	358,672	303,338
Rent and leases (Note 13)	16,760	1,902	108,244	67,085	4,604	198,595	70,457	-	70,457	269,052	217,765
Contractual services	18,035	-	4,431	37,998	122,442	182,906	51,082	-	51,082	233,988	169,650
Bad debts and contractual adjustments (Note 4)	229,857	-	-	11	-	229,868	-	-	-	229,868	434,071
Depreciation and amortization (Note 6)	82,023	17,220	-	49,632	52,388	201,263	-	-	-	201,263	206,194
Communications	31,126	6,560	13,309	71,801	12,779	135,575	24,364	-	24,364	159,939	114,324
Professional fees	53,287	2,081	720	25,910	4,787	86,785	41,687	-	41,687	128,472	83,892
Occupancy	63,515	14,730	8,218	24,041	8,014	118,518	9,015	-	9,015	127,533	158,197
Repairs and maintenance	27,867	7,876	8,308	35,360	9,360	88,771	7,781	-	7,781	96,552	169,566
Travel	3,498	1,382	8,094	29,842	18,743	61,559	22,338	-	22,338	83,897	73,195
Recruitment and training	35,289	2,898	10,422	9,522	5,508	63,639	15,400	-	15,400	79,039	53,427
Dues and subscriptions	17,452	3,021	4,159	4,415	2,402	31,449	46,525	-	46,525	77,974	106,245
Interest (Note 9)	-	-	-	36,191	37,283	73,474	-	-	-	73,474	98,233
Insurance (Note 15)	16,098	909	9,214	15,569	16,569	58,359	7,551	-	7,551	65,910	29,986
Food	3,119	1,341	394	14,865	13,895	33,614	19,498	-	19,498	53,112	33,891
Taxes, licenses and permits	9,630	5,418	548	8,042	3,347	26,985	24,605	-	24,605	51,590	27,825
Dental and laboratory fees	26,957	18,302	-	-	-	45,259	3,998	-	3,998	49,257	67,885
Printing	13,868	1,969	5,956	7,805	7,310	36,908	5,902	-	5,902	42,810	52,676
Advertising	-	-	15,945	-	-	15,945	950	-	950	16,895	13,582
Postage	94	-	10	257	873	1,234	11,102	-	11,102	12,336	13,687
Small equipment purchase	-	-	3,889	-	7,522	11,411	882	-	882	12,293	91,397
Legal	1,000	-	-	-	-	1,000	30	-	30	1,030	-
Miscellaneous	4,482	70	1,678	46,567	5,567	58,364	21,836	-	21,836	80,200	122,757
Allocated Overhead	270,763	64,686	78,541	129,789	70,741	614,520	(614,520)	-	(614,520)	-	(0)
	<u>\$ 3,655,179</u>	<u>\$ 826,654</u>	<u>\$ 855,574</u>	<u>\$ 1,758,901</u>	<u>\$ 1,019,092</u>	<u>\$ 8,115,400</u>	<u>\$ 834,045</u>	<u>\$ 8,890</u>	<u>\$ 842,935</u>	<u>\$ 8,958,335</u>	<u>\$ 8,312,293</u>

See accompanying notes to financial statements

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY, INC.  
(A California Nonprofit Organization)  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2010  
(WITH COMPARATIVE TOTALS FOR 2009)

	2010	2009 Totals [Memorandum Only]
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 1,226,547	\$ 1,213,552
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	201,263	206,194
Provision for doubtful accounts	229,868	434,072
Change in operating assets and liabilities:		
(Increase)/Decrease in:		
Accounts receivable	(364,057)	(426,455)
Grants receivable	82,181	(397,836)
Deposits and prepaid expenses	(13,728)	45,170
Increase/(Decrease) in:		
Accounts payable	19,281	(36,389)
Accrued salaries and fringe benefits	(92,627)	15,896
Accrued personal time off	37,376	49,634
Deposits held in behalf of others	13,190	(1,680)
Total adjustments	112,747	(111,394)
Net cash provided by operating activities	1,339,294	1,102,158
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	-	(21,989)
Additional investments	(1,460,447)	(820,589)
Net cash used in investing activities	(1,460,447)	(842,578)
<b>Cash flows from financing activities:</b>		
Principal payments of long-term note payable	(483,705)	(256,711)
Net cash used in financing activities	(483,705)	(256,711)
Net (decrease) increase in cash and cash equivalents	(604,858)	2,869
Cash and cash equivalents at beginning of year	2,576,534	2,573,665
Cash and cash equivalents at end of year	\$ 1,971,676	\$ 2,576,534
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 73,474	\$ 98,233
Cash paid for income taxes	\$ -	\$ -

*See accompanying notes to financial statements*

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY, INC.  
(A California Nonprofit Organization)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

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**Note 1 – Organization**

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Indian Health Center of Santa Clara Valley, Inc. (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**

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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, 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.



INDIAN HEALTH CENTER OF SANTA CLARA VALLEY, INC.  
(A California Nonprofit Organization)  
NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2010

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Note 2 – Summary of Significant Accounting Policies - Continued

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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 and Contractual Adjustments

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, 2010, management determined that allowances for doubtful accounts are adequate to reduce receivables at its net realizable value.

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY, INC.  
(A California Nonprofit Organization)  
NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2010

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

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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 pay for similar items, which approximates its fair market value. For the year 2009, the Center received in kind donation in the form of vaccines amounting to approximately \$220,000 from the State of California which was included in donations and contributions in the statement 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.

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY, INC.  
(A California Nonprofit Organization)  
NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2010

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

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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 year ended June 30, 2010, such activities are very minimal.

On January 1, 2009, the Center adopted Financial Accounting Standards Board (FASB) Interpretation 48, *"Accounting for Uncertainty in Income Taxes"*. Income tax liabilities recognized are subject to estimates and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. For the year ended June 30, 2010, there are no income tax liabilities related to uncertain income tax positions.

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.

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY, INC.  
(A California Nonprofit Organization)  
NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2010

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

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Subsequent Events

In May 2009, FASB issued Accounting Standard Codification (ASC) Topic 855, "Subsequent Events" ("ASC Topic 855"), to incorporate the accounting and disclosure requirements for subsequent events into generally accepted accounting principles in the United States of America. ASC Topic 855 introduces new terminology, defines a date through which management must evaluate subsequent events, and lists the circumstances under which an entity must recognize and disclose events or transactions occurring after the balance sheet date. In accordance with this standard, the Center evaluated subsequent events through September 27, 2010, 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 [2009 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, 2009, from which the summarized information was derived.

Reclassification of Accounts

Certain accounts in the June 30, 2009 financial statements were reclassified to conform to the June 30, 2010 presentation.

**Note 3 – Investments**

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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, 2010 is as follows:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Less than twelve months	\$ 2,674,502	\$ 2,674,502
One to five years	-	-
Five to ten years	-	-
Over ten years	-	-
	<u>\$ 2,674,502</u>	<u>\$ 2,674,502</u>

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY, INC.  
(A California Nonprofit Organization)  
NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2010

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**Note 4 – Accounts Receivable, Net**

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Accounts receivable consists of the following:

Medi-Cal	\$	490,108
Managed Care		376,477
Medicare		188,821
Sliding Scale		106,578
Child Health and Disability Prevention		88,185
Comprehensive Perinatal Services Program		87,087
Valley Care		83,470
Private insurance		27,344
State-Only Family Planning (California)		24,784
Healthy Families		16,502
Others		<u>172,885</u>
Total accounts receivable	\$	1,662,241
Less allowance for bad debts and contractual adjustments		<u>(1,039,800)</u>
Net accounts receivable	\$	<u><u>622,441</u></u>

Changes in the allowance for bad debts and contractual adjustments were as follows:

Balance, beginning of year	\$	1,005,219
Provision charged to operations		229,868
Charge offs		<u>(195,287)</u>
Balance, end of year	\$	<u><u>1,039,800</u></u>

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY, INC.  
(A California Nonprofit Organization)  
NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2010

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**Note 5 – Grants Receivable - Net**

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Grants receivable consists of the following:

Federal - Section 330 Grant	\$	401,664
Federal - Indian Health Services		224,541
Federal - Women, Infants and Children Program		219,948
Federal - Center for Substance Abuse Prevention		67,163
State of California		21,014
County of Santa Clara		348,110
City of San Jose		25,312
Others		82,500
		<hr/>
Total grants receivable	\$	1,390,252
Less allowance for doubtful accounts		(79,349)
Net grants receivable	\$	<u><u>1,310,903</u></u>

Changes in the allowance for doubtful accounts were as follows:

Balance, beginning of year	\$	95,848
Provision charged to operations		-
Recoveries		35,343
Charge offs		(51,842)
		<hr/>
Balance, end of year	\$	<u><u>79,349</u></u>

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

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Property and equipment consists of the following:

Land	\$	1,646,812
Building		3,457,543
Furniture and equipment		34,653
Vehicles		54,434
Leasehold improvements		490,434
		<hr/>
Total cost		5,683,876
Accumulated depreciation and amortization		<u>1,283,759</u>
		<hr/>
Net book value	\$	<u><u>4,400,117</u></u>

Depreciation and amortization expense for the year ended June 30, 2010 amounted to \$201,263.

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY, INC.  
(A California Nonprofit Organization)  
NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2010

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**Note 7 – Compensated Absences**

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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, 2010 amounted to \$324,042.

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.

**Note 8 – Pension Plan**

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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 amount determined by Internal Revenue Services 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 \$43,558 during the year ended June 30, 2010. The match has a 4-year graduated vesting provision.

**Note 9 – Long-Term Note Payable**

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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 will be 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 collateral is the property located at 602 E. Santa Clara Street, San Jose, California.

The principal amount outstanding as of June 30, 2010 was \$712,798 which was classified as follows:

Total amount outstanding	\$	712,798
Less: Current maturities included in current liabilities		<u>(43,683)</u>
Long-term portion of notes payable	\$	<u><u>669,115</u></u>

The Center was able to pay \$443,028 over and above monthly scheduled principal and interest payments of \$11,765 due to better cash flows.

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, 2010, management believes that the Center was in compliance with those requirements.

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY, INC.  
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NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2010

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**Note 9 – Long-Term Note Payable - Continued**

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As of June 30, 2010, future principal payments on notes payable is as follows:

Year ended June 30,		
2011	\$	43,683
2012		46,911
2013		50,377
2014		54,099
2015		58,097
Thereafter		<u>459,631</u>
Balance, end of year	\$	<u><u>712,798</u></u>

For the year ended June 30, 2010, the aggregate amount of interest from these borrowings included in the statement of activities amounted to \$73,474.

**Note 10 – Unrestricted Net Assets**

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

**Note 11 – Temporarily Restricted Net Assets**

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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**

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During the year ended June 30, 2010, temporarily restricted net assets of \$30,000 were released from donor restrictions through passage of time.

**Note 13 – Commitments**

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The Center leases its satellite program sites in Santa Clara County, California under non-cancellable operating leases expiring in various years through fiscal year 2014. These leases provide for annual escalation charges and renewal options.



INDIAN HEALTH CENTER OF SANTA CLARA VALLEY, INC.  
(A California Nonprofit Organization)  
NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2010

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**Note 13 – Commitments - Continued**

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Aggregate future minimum lease commitments for the non-cancellable facility leases having remaining terms in excess of one year as of June 30, 2010, for each of the next five years and in the aggregate are as follows:

Year ended June 30,		
2011	\$	215,392
2012		129,346
2013		103,271
2014		38,940
Thereafter		-
		<hr/>
Total	\$	<u>486,949</u>

Rent expense for the year ended June 30, 2010 amounted to \$219,021.

**Note 14 - Contingencies**

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

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

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

**Note 15 – Insurance Coverage**

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At June 30, 2010, the Center carried the following insurance coverage: (a) malpractice insurance coverage of \$2 million per occurrence and \$4 million aggregate, in which premiums were paid through April 1, 2011; (b) workmen's compensation insurance coverage of \$1 million per employee, in which premiums were paid through April 1, 2011; (c) directors' and officers' liability insurance of \$2 million, in which premiums were paid through March 22, 2011, and (d) automobile insurance coverage of \$1 million and property insurance coverage of \$5.516 million – premiums of which were paid through July 1, 2011.

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY, INC.  
(A California Nonprofit Organization)  
NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2010

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**Note 16 – Rental Income**

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The Center receives 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 and the Center did not renew the lease. Rental income earned for the year ended June 30, 2010 amounted to \$6,186.

## SUPPLEMENTARY INFORMATION

INDIAN HEALTH CENTER OF SANTA CLARA VALLEY, INC.  
(A California Nonprofit Organization)  
STATEMENT OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<b>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Indian Health Services - Urban Indian Health Services	93.193		\$ 715,014
Consolidated Health Centers – Section 330 Grant	93.224		726,194
Competitive Special Diabetes Program for Indians	93.237		254,880
Special Diabetes Program for Indians	93.237		256,138
HRSA – Capital Improvement Program	93.703		<u>341,970</u>
			2,294,196
<b>Pass-through from Native American Health Center:</b>			
Substance Abuse and Mental Health Services	93.243	N/A	<u>466,389</u>
<b>TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<u>2,760,585</u>
<b>U. S. DEPARTMENT OF AGRICULTURE</b>			
<b>Pass-through from Native American Health Center:</b>			
Supplemental Food Program - Women, Infants and Children (WIC) Nutrition	10.557		<u>780,529</u>
<b>TOTAL U. S. DEPARTMENT OF AGRICULTURE</b>			<u>780,529</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 3,541,114</u></u>

N/A: Not Available

**Note:**

**Basis of Presentation**

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



**INDEPENDENT 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, Inc.  
(A California Nonprofit Organization)  
San Jose, California

We have audited the financial statements of Indian Health Center of Santa Clara Valley, Inc., a Nonprofit Organization, (the "Center") as of and for the year ended June 30, 2010 and have issued our report thereon dated September 27, 2010. 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*.

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.

*St. James & Co., LLP*

Los Angeles, California  
September 27, 2010



**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, Inc.  
(A California Nonprofit Organization)  
San Jose, California

Compliance

We have audited Indian Health Center of Santa Clara Valley, Inc.'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, 2010. The Center's major federal programs are identified in the summary of auditor's 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, 2010.

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 our 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.

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

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

A handwritten signature in dark ink, appearing to read "John A. Smith".

Los Angeles, California  
September 27, 2010



INDIAN HEALTH CENTER OF SANTA CLARA VALLEY, INC.  
(A California Nonprofit Organization)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010

**Section I – Summary of Auditors’ Results**

**Financial Statements**

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

**Federal Awards**

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

<u>CFDA/Control Number</u>	<u>Name of Federal/Local Program</u>
93.193	Indian Health Services - Urban Indian Health Services
93.224	Consolidated Health Centers – Section 330 Grant
93.703	HRSA – Capital Improvement Program
93.243	Substance Abuse and Mental Health Services
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, INC.  
(A California Nonprofit Organization)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)  
FOR THE YEAR ENDED JUNE 30, 2010

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, INC.  
(A California Nonprofit Organization)  
STATUS OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2010

There were no findings reported in the prior year.