

THE HEALTH TRUST
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2012 with Comparative Totals
for the Year Ended June 30, 2011

THE HEALTH TRUST
(A California Nonprofit Public Benefit Corporation)

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SECTION I
FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Health Trust
(A California Nonprofit Public Benefit Corporation)
San Jose, California


We have audited the accompanying statement of financial position of The Health Trust (a California nonprofit public benefit corporation) as of June 30, 2012, and the related statement of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from The Health Trust's financial statements for the year ended June 30, 2011, and, in our report dated October 25, 2011, we 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 the 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 The Health Trust as of June 30, 2012, 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 October 25, 2012, on our consideration of The Health Trust'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 the 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.

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MEMBER OF  AN ASSOCIATION OF SEPARATE AND INDEPENDENT ACCOUNTING & CONSULTING FIRMS

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

Berger Lewis Accountancy Corporation

BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
October 25, 2012

THE HEALTH TRUST
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION

June 30, 2012 with Comparative Totals as of June 30, 2011

ASSETS		
	2012	2011
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 2,827,104	\$ 3,854,799
Investments	95,474,538	102,738,819
Accounts Receivable, Net of Allowance	1,259,066	2,331,047
Grants Receivable, Current Portion	117,013	110,000
Prepaid Expenses	306,484	188,976
Other Accounts Receivable	399	841,648
	99,984,604	110,065,289
PROPERTY AND EQUIPMENT, NET	2,272,321	2,735,026
OTHER ASSETS:		
Grants Receivable, Net of Current Portion	-	100,000
Restricted Investments	288,123	653,250
Land and Building Held for Investment	7,050,000	6,015,000
Investments - Donor Restricted Endowment	360,989	358,419
	7,699,112	7,126,669
TOTAL ASSETS	\$ 109,956,037	\$ 119,926,984

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts Payable	\$ 526,158	\$ 1,302,041
Accrued Payroll and Related Liabilities	1,001,816	901,631
Grants Payable, Current Portion	1,524,919	2,427,949
Other Accrued Expenses	212,091	52,659
	3,264,984	4,684,280
LONG-TERM LIABILITIES:		
Grants Payable, Net of Current Portion	85,000	-
Accrued Expenses Due to Discontinued Operations	224,031	589,158
	309,031	589,158
Total Liabilities	3,574,015	5,273,438
NET ASSETS:		
Unrestricted Net Assets:		
Designated for Medically Related Services	89,189,498	94,640,357
Undesignated	12,907,764	15,049,745
	102,097,262	109,690,102
Temporarily Restricted Net Assets	3,923,771	4,605,025
Permanently Restricted Net Assets	360,989	358,419
	106,382,022	114,653,546
TOTAL LIABILITIES AND NET ASSETS	\$ 109,956,037	\$ 119,926,984

The Accompanying Notes are an Integral Part of these Financial Statements.

THE HEALTH TRUST
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012 with Comparative Totals for the Year Ended June 30, 2011

	2012			2011	
	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL	TOTAL
SUPPORT AND REVENUE:					
Support:					
Government Grants	\$ 4,846,619	\$ 95,805	\$ -	\$ 4,942,424	\$ 5,310,130
Contributions	202,387	1,108,361	2,570	1,313,318	3,501,263
Contributions In-Kind	670,401	-	-	670,401	395,721
Total Support	<u>5,719,407</u>	<u>1,204,166</u>	<u>2,570</u>	<u>6,926,143</u>	<u>9,207,114</u>
Revenue:					
Investment Income (Loss), Net	(2,617,017)	(17,759)	-	(2,634,776)	18,584,404
Appreciation (Depreciation) on Land and Building Held for Investment	1,035,000	-	-	1,035,000	(1,485,000)
Fees for Financial and Administrative Support Services	1,706,766	-	-	1,706,766	1,408,110
Fees for Other Services	732,046	-	-	732,046	796,538
Gain from Discontinued Operations	131,941	-	-	131,941	1,483,987
Total Revenue	<u>988,736</u>	<u>(17,759)</u>	<u>-</u>	<u>970,977</u>	<u>20,788,039</u>
Total Support and Revenue	6,708,143	1,186,407	2,570	7,897,120	29,995,153
Net Assets Released from Restrictions	<u>1,867,661</u>	<u>(1,867,661)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Support, Revenue and Net Assets Released from Restrictions	<u>8,575,804</u>	<u>(681,254)</u>	<u>2,570</u>	<u>7,897,120</u>	<u>29,995,153</u>
EXPENSES:					
Program Services:					
Healthy Communities	6,905,867	-	-	6,905,867	6,255,377
Healthy Aging	2,495,258	-	-	2,495,258	3,119,810
Healthy Living	2,340,120	-	-	2,340,120	1,965,679
Financial and Administrative Support Services	1,586,377	-	-	1,586,377	1,316,550
Total Program Services	<u>13,327,622</u>	<u>-</u>	<u>-</u>	<u>13,327,622</u>	<u>12,657,416</u>
Supporting Services:					
Management and General	2,291,763	-	-	2,291,763	2,148,753
Fundraising	549,259	-	-	549,259	546,366
Total Supporting Services	<u>2,841,022</u>	<u>-</u>	<u>-</u>	<u>2,841,022</u>	<u>2,695,119</u>
Total Expenses	<u>16,168,644</u>	<u>-</u>	<u>-</u>	<u>16,168,644</u>	<u>15,352,535</u>
CHANGE IN NET ASSETS	(7,592,840)	(681,254)	2,570	(8,271,524)	14,642,618
NET ASSETS, Beginning of Year	<u>109,690,102</u>	<u>4,605,025</u>	<u>358,419</u>	<u>114,653,546</u>	<u>100,010,928</u>
NET ASSETS, End of Year	<u>\$ 102,097,262</u>	<u>\$ 3,923,771</u>	<u>\$ 360,989</u>	<u>\$ 106,382,022</u>	<u>\$ 114,653,546</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

THE HEALTH TRUST
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STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2012 with Comparative Totals for the Year Ended June 30, 2011

	PROGRAM SERVICES				SUPPORTING SERVICES			TOTAL
	Healthy Communities	Healthy Aging	Healthy Living	Financial and Administrative Support Services	Management and General	Fundraising	Total	
GRANTS TO OTHERS	\$ 1,565,470	\$ 255,952	\$ 1,126,498	\$ -	\$ 2,947,920	\$ -	\$ -	\$ 2,947,920
SALARIES AND RELATED EXPENSES:								
Salaries and Wages	1,819,527	648,525	669,426	816,986	3,954,464	264,411	1,422,116	5,376,580
Employee Benefits	670,170	235,835	183,346	267,362	1,356,713	81,807	518,073	1,874,786
Payroll Taxes	158,473	56,834	54,422	72,474	342,203	19,536	102,257	444,460
Total Salaries and Related Expenses	2,648,170	941,194	907,194	1,156,822	5,653,380	365,754	2,042,446	7,695,826
OTHER EXPENSES:								
Purchased Services	1,249,980	300,176	186,471	202,958	1,939,585	20,035	102,592	2,042,177
Building and Equipment Rental	612,319	389,963	65,929	105,487	1,173,698	77,019	226,877	1,400,574
Supplies	243,817	422,187	19,800	22,705	708,509	22,402	79,743	788,253
Depreciation	364,691	54,258	12,521	24,684	456,154	6,457	39,397	495,551
Professional Fees	82,495	38,461	1,433	3,093	125,482	30,935	184,422	309,904
Other Expenses	64,560	65,979	12,739	57,025	200,303	20,911	77,784	278,087
Utilities	66,109	19,976	7,194	7,106	100,385	5,746	23,639	124,024
Insurance	8,256	7,112	341	6,497	22,206	-	64,122	86,328
Total Other Expenses	2,692,227	1,298,112	306,428	429,355	4,726,322	183,505	798,576	5,524,898
Total Functional Expenses	\$ 6,905,867	\$ 2,495,258	\$ 2,340,120	\$ 1,586,377	\$ 13,327,672	\$ 2,291,763	\$ 549,259	\$ 16,168,644
Percentage of Total	42.7 %	15.4 %	14.5 %	9.8 %	82.4 %	14.2 %	3.4 %	100.0 %

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THE HEALTH TRUST
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STATEMENT OF CASH FLOWS

Year Ended June 30, 2012 with Comparative Totals for the Year Ended June 30, 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (8,271,524)	\$ 14,642,618
Adjustments to Reconcile Change in Net Assets to Net Cash		
Used by Operating Activities:		
Depreciation	495,551	397,624
Unrealized (Gain) Loss on Investments	4,325,462	(11,301,477)
Realized Gain on Investments	(1,689,418)	(6,876,485)
(Appreciation) Depreciation on Land and Building Held for Investment	(1,035,000)	1,485,000
(Increase) Decrease in Assets:		
Accounts Receivable, Net of Allowance	1,071,981	(1,231,827)
Grants Receivable	92,987	57,422
Prepaid Expenses	(117,508)	(22,730)
Other Accounts Receivable	841,249	(841,648)
Increase (Decrease) in Liabilities:		
Accounts Payable	(775,884)	724,590
Accrued Payroll and Related Liabilities	100,185	81,971
Grants Payable	(818,030)	(861,545)
Other Accrued Expenses	159,432	(73,222)
Accrued Expenses Due to Discontinued Operations	(365,127)	(24,349)
Net Cash Used by Operating Activities	(5,985,644)	(3,844,058)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Investments	(12,886,046)	(43,790,004)
Proceeds from Sales and Maturity of Investments	17,511,713	49,979,194
Purchases of Property and Equipment	(32,845)	(1,514,398)
Changes in Restricted Investments	365,127	24,349
Net Cash Provided by Investing Activities	4,957,949	4,699,141
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,027,695)	855,083
CASH AND CASH EQUIVALENTS, Beginning of Year	3,854,799	2,999,716
CASH AND CASH EQUIVALENTS, End of Year	\$ 2,827,104	\$ 3,854,799

The Accompanying Notes are an Integral Part of these Financial Statements.

THE HEALTH TRUST
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION:

The Health Trust (the "Organization") is a California nonprofit public benefit corporation founded in 1996 from the sale of three local nonprofit hospitals. For more than 15 years The Health Trust has been a catalyst for Silicon Valley community partnerships that identify health issues and work together to find innovative solutions. The Health Trust is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

The Health Trust engages in policy and advocacy and provides grants and services. Specific services that are included within the broad program services categories described in Note 2 are as follows:

Meals On Wheels - program has provided more than 70,000 meals annually to individuals who are physically challenged, elderly and homebound, supporting the nutrition, health and independence of these residents.

AIDS Services - the largest non-medical program in Santa Clara County for individuals and their families with HIV/AIDS, providing case management, housing assistance, food, education and a community center, serving 800 clients during the year ended June 30, 2012.

Children's Dental Center - The Health Trust's dental clinic on the East side of San Jose provided 21,000 oral health visits for both preventive and restorative oral health care to 10,000 children without ready access to a dentist. The new clinic in Sunnyvale served 2,924 children and provided 5,814 oral health visits.

Wellness Access and Education - helps over 4,000 children and adults enroll in public health insurance programs each year, leads chronic disease and diabetes management classes for more than 400 adults and also educates local communities about health and wellness through grassroots activities.

Family Resource Centers - located in targeted zip codes in two Supervisorial Districts in San Jose, provides health linkages, health education, and child development services to families with 0-5 year olds. The program reaches hundreds of families during the year and provides a number of volunteer opportunities for the larger community.

NOTE 2 - PROGRAM SERVICES:

In January of 2008, The Health Trust announced a \$30 million investment in three initiatives - Healthy Communities, Healthy Aging and Healthy Living.

Healthy Communities - The Healthy Communities Initiative focuses on reducing and eliminating health disparities, using the following strategies:

- Raising awareness about the root causes of health disparities such as poverty, racism, discrimination and inequities in health, education and income;
- Providing access to prevention, screening and management of chronic diseases through direct service delivery, grant making and partnerships;

THE HEALTH TRUST
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - PROGRAM SERVICES (Continued):

- Supporting health care coverage and services through direct service delivery, grant making and advocacy; and
- Providing oral health education and treatment services for children.

Healthy Aging - The Healthy Aging Initiative focuses on supporting the health of our aging population so they can spend more years in good health and be engaged as vital members of their communities. Healthy Aging relies on the following strategies:

- Expanding evidence-based health promotion programs for older adults;
- Providing leadership and coordination for a county-wide Aging Services Collaborative that advances the well-being of older adults and their caregivers with joint advocacy, planning and fund development;
- Supporting and educating informal caregivers so that they can maintain their own health and well-being while providing better care for older adults;
- Providing healthy nutrition and social connections for older adults; and
- Supporting civic engagement so that older adults have meaningful opportunities to "engage as they age" to help them remain vibrant members of the community.

Healthy Living - The Healthy Living Initiative focuses on reducing the rates of overweight and obesity through healthy nutrition and physical activity, relying on the following strategies:

- Encouraging cities and counties to support health by incorporating health into their general plans;
- Using grant making advocacy and collaboration to foster the development of community/school gardens and urban/sustainable agriculture to expand access to fruits and vegetables; and
- Supporting local efforts to create policies and environmental changes so that places - neighborhoods, worksites, schools and other organizations - foster wellness and healthy behaviors.

Financial and Administrative Support Services - The Health Trust provides financial and administrative support services to other independent nonprofit corporations exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code. The related revenue and expenses are recorded as fees for financial and administrative support services revenue and program expenses on the statement of activities. Financial and Administrative Support Services spun off as of July 1, 2012 from the Organization (see Note 17).

THE HEALTH TRUST
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting - The financial statements of the Organization have been prepared on the accrual basis of accounting.

Basis of Presentation - The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations. In accordance with generally accepted accounting principles, the Organization reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets include those assets over which the Board of Trustees has discretionary control in carrying out the operations of the Organization. Under this category, the Organization maintains an operating fund plus any net assets designated by the Board for specific purposes (see Note 11).

Temporarily restricted net assets include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting period.

Permanently restricted net assets include those assets which are subject to a non-expiring donor restriction, such as endowments.

Comparative Financial Information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue and expenses during the period. Accordingly, actual results could differ from those estimates. Significant estimates include the valuation of The Health Trust's investments, the expected useful lives of property and equipment, and the determination of functional expense allocations.

Cash and Cash Equivalents - Cash and cash equivalents include highly liquid investments and investments with a maturity of three months or less, excluding cash received with a donor-imposed restriction that limits its use to long-term purposes. The Organization maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts due to this and management believes it is not exposed to any significant risk on cash accounts.

THE HEALTH TRUST
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Investments - Investments are stated at fair value and purchases and sales are recorded on a trade or contract date basis. The estimated fair value of investments is based on quoted market prices, except for alternative investments for which quoted market prices are not available. Alternative investments include private equities, hedge funds and real property assets. The estimated fair value of alternative investments is based on valuations provided by the general partner or fund managers. The Health Trust reviews and evaluates the valuation methods and assumptions used in determining the fair value of the alternative investments. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the statement of activities in the period that such fluctuations occur. Gains and losses on investments are reported as increases or decreases in unrestricted or temporarily restricted net assets based on the nature of restrictions.

Fair Value Measurements - Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". A hierarchy has been established to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date. Investments that are included in this category generally include privately held investments and partnership interests.

Accounts Receivable - The Organization utilizes the reserve method of accounting for doubtful accounts based on historical experience and management's evaluation of outstanding accounts receivable at the end of each year. As of June 30, 2012 and 2011, the Organization had an allowance for doubtful accounts of \$23,000 and \$10,000, respectively.

THE HEALTH TRUST
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Grants Receivable - The Organization considers all grants receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

Property and Equipment - Property and equipment are recorded at cost or estimated fair value for donated items. Equipment purchases over \$500 are capitalized. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 10 years. Depreciation is charged to the activity benefiting from the use of the property or equipment.

Accrued Paid Time Off - Accrued paid time off represents time earned, but not taken as of June 30, 2012 and 2011, and is included in "accrued payroll and related liabilities" in the statement of financial position. The accrued paid time off balance as of June 30, 2012 and 2011 was \$380,848 and \$350,420, respectively.

Contributions - Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions. Restricted contributions are reported as increases in restricted net assets. When the restriction is met the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

Funds raised on behalf of other organizations are not recognized as support in the statement of activities. Instead they are recorded as assets and liabilities in the statement of financial position.

Contributions In-Kind - Donated equipment, supplies and rent are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Organization also receives donated services that do not require specific expertise but which are nonetheless central to the Organization's operations. While these contributed services are not reflected in the financial statements the estimated value of these services is disclosed in Note 13.

Grants to Others - Grants to others are recognized when the unconditional promise to give is approved by the Board of Trustees. Conditional promises to give are recognized as a "grants to others" expense in the period in which the recipient meets terms of the condition. There were no conditional promises to give as of June 30, 2012 and 2011.

Allocation of Functional Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management's estimate of indirect salary expense allocation is based on individual employee estimated time spent by function, time studies and/or time sheets. Management's estimate of other indirect costs is based on salary expense or square footage.

THE HEALTH TRUST
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Income Taxes - The Health Trust is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and exempt from state income taxes under Section 23701(d) of the California Revenue Taxation Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code.

Uncertainty in Income Taxes - Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that it has appropriate support for its tax positions taken on its unrelated business taxable income relating to its Financial and Administrative Support Services program and that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

The Organization's federal returns for years ended June 30, 2011, 2010 and 2009 could be subject to examination by federal taxing authorities, generally for three years after they are filed. The Organization's state returns for the years ended June 30, 2011, 2010, 2009 and 2008 could be subject to examination by state taxing authorities, generally for four years after they are filed.

Advertising - The Organization's policy is to expense advertising costs as the costs are incurred. Marketing and advertising expense for the years ended June 30, 2012 and 2011 was \$8,875 and \$23,955, respectively.

Reclassifications - Certain amounts in the prior year have been reclassified in order to be consistent with the current year presentation.

Subsequent Events - Management of the Organization has evaluated events and transactions subsequent to June 30, 2012 for potential recognition or disclosure in the financial statements. The Organization has subsequent events that require recognition or disclosure in the financial statements for the year ended June 30, 2012 (see Note 17). Subsequent events have been evaluated through the date the financial statements became available to be issued, October 25, 2012. The Organization has not evaluated subsequent events after October 25, 2012.

NOTE 4 - THE UNIFORM PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS ACT (UPMIFA):

It is the intent of the trustees of The Health Trust to have the Finance and Investment Committee follow the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as they apply to the Board-Designated and Undesignated Net Assets (Note 11) for June 30, 2012 in the amounts of \$89,189,498 and \$12,907,764, respectively, and apply the investment standards of UPMIFA in the management of these assets.

THE HEALTH TRUST
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - THE UNIFORM PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS ACT
(UPMIFA) (Continued):

Interpretation of Relevant Law - The Board of Trustees of The Health Trust has interpreted the California version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The Health Trust classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the California version of UPMIFA. In accordance with the California version of UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the various funds
- (2) The purposes of the Organization and the donor-restricted endowment funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Investment Return Objectives, Spending Policy, Risk Parameters and Strategies - The Health Trust has adopted investment and spending policies, approved by the Board of Trustees, for investment assets that attempt to provide a predictable stream of funding to programs supported by its investment funds while also maintaining the purchasing power of those investment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Investment assets are invested in a well diversified asset mix, which includes equities, alternative investments, fixed income, and cash and equivalents, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5.9% based on the moving average fair value of the prior 5 years through the fiscal year-end preceding the fiscal year in which the distribution is planned, while growing the funds if possible. Therefore, the Organization expects its investment assets, over time, to produce an average rate of return of approximately 8.4% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total investment funds; investment assets and allocation between asset classes and strategies are managed to not expose the funds to unacceptable levels of risk.

THE HEALTH TRUST
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 5 - ENDOWMENT:

The Organization's endowment of \$360,989 and \$358,419 as of June 30, 2012 and 2011, respectively, consists of individual donor-restricted endowment funds established for a variety of purposes. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original contributed amount by the donor. In accordance with Generally Accepted Accounting Principles (GAAP), deficiencies of this nature that are required to be reported in unrestricted net assets totaled \$(11,335) and \$(2,444) as of June 30, 2012 and 2011, respectively.

Endowment net asset composition as of June 30, 2012 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ (11,335)	\$ -	\$ 360,989	\$ 349,654

Changes in donor-restricted endowment net assets for the fiscal year ended June 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ (2,444)	\$ -	\$ 358,419	\$ 355,975
Contributions	-	-	2,570	2,570
Interest and Dividends Net Realized and Unrealized Loss on Investments	5,147 (9,476)	- -	- -	5,147 (9,476)
Investment Fees	(4,562)	-	-	(4,562)
Endowment Net Assets, End of Year	\$ (11,335)	\$ -	\$ 360,989	\$ 349,654

THE HEALTH TRUST
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 6 - INVESTMENTS:

Investments held at fair value as of June 30, consisted of the following:

	<u>2012</u>	<u>2011</u>
Investments	\$ 95,474,538	\$102,738,819
Investments - Donor-Restricted Endowment	<u>360,989</u>	<u>358,419</u>
Total Investments	<u>\$ 95,835,527</u>	<u>\$103,097,238</u>

Investments held at fair value by type as of June 30, consisted of the following:

	<u>2012</u>	<u>2011</u>
Large Cap Value Equities	\$ 7,659,342	\$ 7,120,714
Large Cap Growth Equities	7,671,844	5,774,902
Small Cap Equities	4,782,539	5,596,916
International Equities	24,648,663	28,262,666
R.E.I.T. Equities	5,097,890	5,203,480
Marketable Alternatives	19,499,104	23,187,523
Fixed Income Securities	24,217,959	25,664,613
Limited Partnerships and Others	<u>2,258,186</u>	<u>2,286,424</u>
Total Investments	<u>\$ 95,835,527</u>	<u>\$103,097,238</u>

Purchase commitments related to limited partnerships as of June 30, 2012 and 2011 were \$902,656 and \$1,302,656, respectively.

Fixed income securities consist primarily of investment grade instruments issued by government agencies (U.S. and international), corporations and mortgage backed securities.

Investment securities are exposed to various risks, such as changes in interest rates or credit ratings and market fluctuations. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in value of investment securities, it is possible that the value of The Health Trust's investments and total net assets balance could fluctuate materially.

THE HEALTH TRUST
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 6 - INVESTMENTS (Continued):

Fair value of assets measured on a recurring basis as of June 30, 2012 was as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Large Cap Value Equities	\$ 7,659,342	\$ 7,659,342	\$ -	\$ -
Large Cap Growth Equities	7,671,844	7,671,844	-	-
Small Cap Equities	4,782,539	4,782,539	-	-
International Equities	24,648,663	24,648,663	-	-
R.E.I.T. Equities	5,097,890	5,097,890	-	-
Marketable Alternatives	19,499,104	-	-	19,499,104
Fixed Income Securities	24,217,959	24,217,959	-	-
Limited Partnerships and Others	<u>2,258,186</u>	<u>-</u>	<u>-</u>	<u>2,258,186</u>
Total Investments	<u>\$ 95,835,527</u>	<u>\$ 74,078,237</u>	<u>\$ -</u>	<u>\$ 21,757,290</u>

Fair value of assets measured on a recurring basis as of June 30, 2011 was as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Large Cap Value Equities	\$ 7,120,714	\$ 7,120,714	\$ -	\$ -
Large Cap Growth Equities	5,774,902	5,774,902	-	-
Small Cap Equities	5,596,916	5,596,916	-	-
International Equities	28,262,666	28,262,666	-	-
R.E.I.T. Equities	5,203,480	5,203,480	-	-
Marketable Alternatives	23,187,523	-	-	23,187,523
Fixed Income Securities	25,664,613	25,664,613	-	-
Limited Partnerships and Others	<u>2,286,424</u>	<u>-</u>	<u>-</u>	<u>2,286,424</u>
Total Investments	<u>\$ 103,097,238</u>	<u>\$ 77,623,291</u>	<u>\$ -</u>	<u>\$ 25,473,947</u>

THE HEALTH TRUST
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 6 - INVESTMENTS (Continued):

The following schedule summarizes The Health Trust's Level 3 investments activities for the year ended June 30, 2012:

Balance as of June 30, 2011	\$ 25,473,947
Net Unrealized/Realized Loss Included In	
Change In Net Assets	(1,589,701)
Capital Contributions	405,000
Proceeds from Redemptions and Distributions	<u>(2,531,956)</u>
Balance as of June 30, 2012	<u>\$ 21,757,290</u>

The following schedule summarizes the investment returns and their classifications in the statement of activities for the year ended June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest Income	\$ 314,821	\$ 2,351	\$ 317,172
Dividend Income	1,076,854	8,055	1,084,909
Rental Loss	(424,152)	-	(424,152)
Net Unrealized/Realized Loss	<u>(2,616,703)</u>	<u>(19,341)</u>	<u>(2,636,044)</u>
Total Investment Income	(1,649,180)	(8,935)	(1,658,115)
Less: Investment Expenses	<u>(967,837)</u>	<u>(8,824)</u>	<u>(976,661)</u>
Net Investment Income	<u>\$ (2,617,017)</u>	<u>\$ (17,759)</u>	<u>\$ (2,634,776)</u>

The following schedule summarizes the investment returns and their classifications in the statement of activities for the year ended June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest Income	\$ 598,473	\$ 8,395	\$ 606,868
Dividend Income	736,303	7,000	743,303
Rental Loss	(72,127)	-	(72,127)
Net Unrealized/Realized Gain	<u>17,967,900</u>	<u>210,062</u>	<u>18,177,962</u>
Total Investment Income	19,230,549	225,457	19,456,006
Less: Investment Expenses	<u>(862,300)</u>	<u>(9,302)</u>	<u>(871,602)</u>
Net Investment Income	<u>\$ 18,368,249</u>	<u>\$ 216,155</u>	<u>\$ 18,584,404</u>

THE HEALTH TRUST
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 7 - PROPERTY AND EQUIPMENT:

The cost and related accumulated depreciation of the property and equipment as of June 30, consisted of the following:

	2012	2011
Leasehold Improvements	\$ 2,526,336	\$ 2,520,515
Equipment	1,870,445	1,860,225
	4,396,781	4,380,740
Less: Accumulated Depreciation	(2,124,460)	(1,645,714)
Property and Equipment, Net	\$ 2,272,321	\$ 2,735,026

Depreciation expense for the years ended June 30, 2012 and 2011 was \$495,551 and \$397,624, respectively.

NOTE 8 - RESTRICTED INVESTMENTS / DISCONTINUED OPERATIONS:

The Health Trust is the fiduciary of a retirement account for a physician. The balance in this account is reported as a restricted investment in the statement of financial position and the offset balance is included in accrued expenses due to discontinued operations under long-term liabilities. As of June 30, 2012 and 2011, the balance of this retirement account was \$224,031 and \$589,158, respectively. Restricted investments also include balances in 457(f) deferred compensation plans for two executives.

NOTE 9 - LAND AND BUILDING HELD FOR INVESTMENT:

Management obtained valuations provided by real estate brokers and/or utilized the sales price in a contract for sale in estimating the fair value of its land and building held for investment as of June 30, 2012 and 2011 (see Note 17). Consequently, land and building held for investment are stated at fair value at June 30, consisted of the following:

	2012	2011
Land and Building Held for Investment	\$ 7,050,000	\$ 6,015,000

Changes in the carrying value of the land and building held for investment for the years ended June 30, was as follows:

	2012	2011
Land and Building Held for Investment, Beginning of Year	\$ 6,015,000	\$ 7,500,000
Appreciation (Depreciation) on Land and Building Held for Investment	1,035,000	(1,485,000)
Land and Building Held for Investment, End of Year	\$ 7,050,000	\$ 6,015,000

THE HEALTH TRUST
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 10 - GRANTS PAYABLE:

Grants payable consist of amounts awarded, but not yet paid, to grantees of The Health Trust. Grants payable at June 30, are to be paid as follows:

	<u>2012</u>	<u>2011</u>
Payables Due in Less Than One Year	\$ 1,524,919	\$ 2,427,949
Payables Due in More Than One Year	<u>85,000</u>	<u>-</u>
Total Grants Payable	<u>\$ 1,609,919</u>	<u>\$ 2,427,949</u>

NOTE 11 - DESIGNATED NET ASSETS:

Under California charitable trust law, The Health Trust's assets and income derived therefrom must be used consistently with the purposes set forth in The Health Trust's Articles of Incorporation at the time the assets were obtained. After the sale of its hospital related operations in 1996, The Health Trust engaged in extensive negotiations with the Office of the California Attorney General (the "AG") and received court approval for a long-term plan for the use of its assets in October 1997. On June 8, 1998, The Health Trust amended its bylaws to reflect a new agreement with the AG for an alternative plan for the use of its assets. The amended bylaws established a single board-designated fund.

The board-designated fund of \$89,189,498 and \$94,640,357 at June 30, 2012 and 2011, is reserved for medically related services and expenditures provided within Santa Clara County and Northern San Benito County by or through a public or not-for-profit tax-exempt hospital. Insurance covering medical services for the medically indigent may also be funded.

The undesignated portion of The Health Trust's net assets are available for The Health Trust's general purposes to promote and enhance the health of the greater Santa Clara County community and totaled \$12,907,764 and \$15,049,745 at June 30, 2012 and 2011.

THE HEALTH TRUST
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS:

The Organization's temporarily restricted net assets as of June 30, consisted of the following:

	<u>2012</u>	<u>2011</u>
Destination Home	\$ 1,646,258	\$ 2,104,719
Children's Dental Services	972,804	1,093,558
AIDS Services	383,546	414,607
Other Purposes	335,288	360,764
Meals on Wheels	273,591	301,597
Healthy Living	164,738	70,225
Healthy Aging	54,607	105,000
Wellness Access and Education	36,836	122,372
Natalie Fund	32,183	32,183
Healthy Communities	<u>23,920</u>	<u>-</u>
Total Temporarily Restricted Net Assets	<u>\$ 3,923,771</u>	<u>\$ 4,605,025</u>

NOTE 13 - CONTRIBUTIONS IN-KIND:

The estimated fair value of donated supplies, rent and expert services are recorded as contributions. During the years ended June 30, the following in-kind contributions were received by the Organization:

	<u>2012</u>	<u>2011</u>
Supplies	\$ 363,376	\$ 118,105
Building and Equipment Rental	301,325	247,821
Professional Fees	<u>5,700</u>	<u>29,795</u>
Total Contributions In-Kind	<u>\$ 670,401</u>	<u>\$ 395,721</u>

Volunteers also donated 34,608 and 35,929 hours of non-professional services for the years ended June 30, 2012 and 2011, respectively. Management has estimated the value of these services to be \$407,085 and \$452,692. Since these services did not require specialized skills, they have not been recorded as support and expenses in the financial statements.

NOTE 14 - PENSION PLANS:

The Health Trust sponsors defined contribution plans under both Internal Revenue Code Section 401(a) and 403(b). The plans cover all employees who meet the eligibility requirements. Contributions to the 401(a) plan are discretionary and are determined annually by The Health Trust's Board of Trustees. For the years ended June 30, 2012 and 2011, contributions to the 401(a) plan were \$194,118 and \$115,750, respectively.

THE HEALTH TRUST
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 14 - PENSION PLANS (Continued):

Under the 403(b) plan, eligible employees may contribute a percentage of their compensation as defined in the plan agreements in accordance with Internal Revenue Service regulations. In general, The Health Trust matches 50% of an employee's contribution up to 6% of an employee's salary. For the years ended June 30, 2012 and 2011, contributions to the 403(b) plan were \$132,360 and \$120,141, respectively.

The Health Trust also maintains 457(f) deferred compensation plans for senior executives. Contributions to the plans are determined by the Board of Trustees each year and subject to substantial risk of forfeiture. For the years ended June 30, 2012 and 2011, The Health Trust did not make any contributions to the 457(f) plan.

NOTE 15 - OPERATING LEASE COMMITMENTS:

The Organization is obligated under the following leases:

2105 South Bascom Avenue, Campbell, California - lease rate of \$38,046 per month with a 4% annual inflation adjustment. The lease agreement ends on August 31, 2012. See Note 17.

1153 South King Road, San Jose, California - lease rate of \$20,025 per month with escalating payments. The lease agreement ends on November 30, 2017.

46 and 48A Race Street, San Jose, California - lease rate of \$5,579 per month. The lease agreement ends on June 30, 2016.

1400 Parkmoor Avenue, San Jose, California - lease rate of \$1 per month. The lease agreement ends on May 31, 2018.

897 West El Camino Real, Sunnyvale, California - lease rate of \$9,120 per month. The lease agreement ends on February 28, 2021.

The minimum future rent payments under non-cancelable leases having remaining terms in excess of one year as of June 30, 2012, for each year and in the aggregate are:

<u>Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 506,137
2014	437,236
2015	447,427
2016	457,943
2017	401,817
Thereafter	<u>601,680</u>
Total Future Minimum Lease Payments	<u>\$ 2,852,240</u>

THE HEALTH TRUST
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 15 - OPERATING LEASE COMMITMENTS (Continued):

Rental expense, including in-kind, for the years ended June 30, 2012 and 2011 was \$1,400,573 and \$1,202,504, respectively.

NOTE 16 - CONFLICT OF INTEREST POLICY:

Included among the Organization's Board of Trustees and Officers are volunteers from the community who provide valuable assistance to the Organization in the development of policies and programs and in the evaluation of business transactions. The Organization has adopted a conflict of interest policy whereby Board members are disqualified from participation in the final decisions regarding any action affecting their related company or agency.

NOTE 17 - SUBSEQUENT EVENTS:

Purchase of New Building - In July 2012 the Organization purchased a building to serve as its new headquarters. The Organization also incurred tenant improvements costs for this building. Total costs incurred for the purchase of the building and tenant improvements were approximately \$5,000,000.

Spin Off of Financial and Administrative Support Services (FASS) - On July 1, 2012, FASS, which previously was operating as a program of The Health Trust, spun off into a wholly-owned subsidiary of The Health Trust that is organized as a California for-profit corporation. Subsequent to year end, The Health Trust contributed start-up capital to FASS in the amount of \$350,000, plus the assets utilized by FASS in performing its operations, in return for a 100% stock interest in FASS.

Land and Building Held for Investment - The Organization is currently under contract for the sale of its Blossom Hill land and building for \$3,800,000. As of June 30, 2012, the Organization has adjusted the fair value of its Blossom Hill land and building based on the contract price (see Note 9).

SECTION II
SUPPLEMENTARY INFORMATION

THE HEALTH TRUST
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Community Development Block Grants/Entitlement Grants:			
Pass-through from City of San Jose	14.218	CPS-10-039A	\$ 21,793
Pass-through from City of Milpitas	14.218	N/A	5,000
Pass-through from City of Gilroy	14.218	11-254-2621-5227-4558	6,500
Pass-through from City of Sunnyvale	14.218	1112-824351	6,551
Pass-through from City of San Jose	14.218	CPS-10-040A	<u>19,672</u>
Total Community Development Block Grants/Entitlement Grants			<u>59,516</u>
Housing Opportunities for Persons With AIDS:			
Pass-through from City of San Jose	14.241	HOP-10-001A	785,174
Pass-through from City of San Jose	14.241	SPNS-10-001	<u>395,615</u>
Total Housing Opportunities for Persons With AIDS			<u>1,180,789</u>
Total U.S. Department of Housing and Urban Development			<u>1,240,305</u>
<u>Corporation for National and Community Service</u>			
AmeriCorps:			
Pass-through from State of California	94.006	09ACHY17-C113	87,713
Pass-through from State of California	94.006	09ACHY18-C113	<u>260,331</u>
Total Corporation for National and Community Service			<u>348,044</u>
<u>U.S. Department of Health and Human Services</u>			
Pass-through from Council on Aging:			
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	AP 1112-10	138,000
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	AP 1112-10	54,000
Nutrition Services Incentive Program	93.053	AP 1112-10	<u>24,449</u>
Total Pass-through from Council on Aging			<u>216,449</u>
Pass-through from County of Santa Clara:			
HIV Emergency Relief Formula Grants	93.915	N/A	<u>1,017,541</u>
Total U.S. Department of Health and Human Services			<u>1,233,990</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,822,339</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

THE HEALTH TRUST
(A California Nonprofit Public Benefit Corporation)

NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS

NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of The Health Trust under programs of the federal government for the year ended June 30, 2012. 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*. Because the Schedule presents only a selected portion of the operations of The Health Trust, it is not intended to and does not present the financial position, changes in net assets, or cash flows of The Health Trust.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures - Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through Entity Identifying Number - Pass-through entity identifying numbers are presented where available.

SECTION III
REPORTS

Thomas C. Bondi
Lawrence S. Kuechler
Roberto M. Maragoni
Frank A. Minuti, Jr.

EMERITUS
Alexander W. Berger (1916-2005)
Griffith R. Lewis



Daniel C. Moors
Randy G. Peterson
Todd W. Robinson
David R. Sheets
Robert W. Smiley

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*

To the Board of Trustees
The Health Trust
(A California Nonprofit Public Benefit Corporation)
San Jose, California

We have audited the financial statements of The Health Trust (a California nonprofit public benefit corporation) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 25, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of The Health Trust is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered The Health Trust's internal control over financial reporting as a basis for designing our auditing 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 Health Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the board of trustees, the audit committee, others within the entity, 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.

Berger Lewis Accountancy Corporation

BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
October 25, 2012

Thomas C. Bondi
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Roberto M. Maragoni
Frank A. Minuti, Jr.

EMERITUS

Alexander W. Berger (1916-2005)
Griffith R. Lewis



CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

Daniel C. Moors
Randy G. Peterson
Todd W. Robinson
David R. Sheets
Robert W. Smiley

INDEPENDENT AUDITOR'S 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

To the Board of Trustees
The Health Trust
(A California Nonprofit Public Benefit Corporation)
San Jose, California


Compliance

We have audited The Health Trust's (a California nonprofit public benefit corporation) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of The Health Trust's major federal programs for the year ended June 30, 2012. The Health Trust'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 The Health Trust's management. Our responsibility is to express an opinion on The Health Trust'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 Health Trust'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 Health Trust's compliance with those requirements.

In our opinion, The Health Trust complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

55 ALMADEN BLVD. SUITE 600 SAN JOSE, CA 95113-1605 (408) 494-1200 (P) (408) 279-8186 (F)

MEMBER OF  AN ASSOCIATION OF SEPARATE AND INDEPENDENT ACCOUNTING & CONSULTING FIRMS

Internal Control Over Compliance

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

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

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 trustees, the audit committee, others within the entity, 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.



BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
October 25, 2012

SECTION IV
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

THE HEALTH TRUST
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unqualified opinion on the financial statements of The Health Trust.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of The Health Trust, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's 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.
5. The auditor's report on compliance for the major federal award programs for The Health Trust expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program was:
CFDA 14.241 Housing Opportunities for Persons With AIDS.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The Health Trust was determined to be a low-risk auditee.

FINDINGS - FINANCIAL STATEMENTS AUDIT:

NONE

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT:

NONE

THE HEALTH TRUST
(A California Nonprofit Public Benefit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2012

NONE