

The Health Trust and Subsidiary

Consolidated Financial Statements
and Single Audit Reports and Schedules

June 30, 2016
(With Comparative Totals for 2015)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees and the Board of Directors
The Health Trust and Subsidiary
San Jose, California

We have audited the accompanying consolidated financial statements of The Health Trust (a California nonprofit corporation) and Subsidiary (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the U.S. and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the U.S. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Health Trust and Subsidiary as of June 30, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the U.S.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the U.S. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2016, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited The Health Trust and Subsidiary's 2015 consolidated financial statements, and our report dated November 18, 2015 expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Armanino^{LLP}
San Jose, California

December 7, 2016

The Health Trust and Subsidiary
Consolidated Statement of Financial Position
June 30, 2016
(With Comparative Totals for 2015)

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,190,764	\$ 2,738,644
Investments	89,316,158	99,515,788
Accounts receivable, net	2,178,478	2,303,424
Grants receivable	184,903	148,785
Prepaid expenses	140,511	156,975
Other current assets	-	7,442
Total current assets	94,010,814	104,871,058
Property and equipment, net	5,628,791	6,030,477
Other assets		
Restricted investments	99,170	152,413
Land and building held for investment	7,500,000	7,500,000
Investments - donor restricted endowment	170,980	170,480
Total other assets	7,770,150	7,822,893
Total assets	\$ 107,409,755	\$ 118,724,428
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 522,172	\$ 600,403
Accrued payroll and related liabilities	1,302,752	1,376,049
Grants payable	3,000	106,691
Other accrued expenses	71,194	93,198
Total current liabilities	1,899,118	2,176,341
Accrued expenses due to discontinued operations	33,526	67,111
Total liabilities	1,932,644	2,243,452
Net assets		
Unrestricted		
Designated for medically related services	91,178,825	100,142,949
Unrestricted	11,517,596	12,954,722
Total unrestricted	102,696,421	113,097,671
Temporarily restricted	2,609,710	3,212,825
Permanently restricted	170,980	170,480
Total net assets	105,477,111	116,480,976
Total liabilities and net assets	\$ 107,409,755	\$ 118,724,428

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

The Health Trust and Subsidiary
Consolidated Statement of Activities
For the Year Ended June 30, 2016
(With Comparative Totals for 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Support and revenue					
Support					
Government grants	\$ 7,773,348	\$ 308,008	\$ -	\$ 8,081,356	\$ 7,184,951
Contributions	428,983	1,337,917	500	1,767,400	1,526,704
Contributions in-kind	<u>1,003,604</u>	<u>-</u>	<u>-</u>	<u>1,003,604</u>	<u>886,265</u>
Total support	<u>9,205,935</u>	<u>1,645,925</u>	<u>500</u>	<u>10,852,360</u>	<u>9,597,920</u>
Revenue					
Fees for financial administrative support services	2,661,591	-	-	2,661,591	2,293,566
Investment income (loss), net	(4,126,085)	-	-	(4,126,085)	1,832,577
Fee for other services	798,600	-	-	798,600	1,026,929
Rental income	300,953	-	-	300,953	272,900
Other revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,820</u>
Total revenue	<u>(364,941)</u>	<u>-</u>	<u>-</u>	<u>(364,941)</u>	<u>5,450,792</u>
Total support and revenue	8,840,994	1,645,925	500	10,487,419	15,048,712
Net assets released from restriction	<u>2,249,040</u>	<u>(2,249,040)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support, revenue and net assets released from restriction	<u>11,090,034</u>	<u>(603,115)</u>	<u>500</u>	<u>10,487,419</u>	<u>15,048,712</u>
Functional expenses					
Program services					
Healthy Living	11,605,951	-	-	11,605,951	8,660,580
Healthy Aging	2,875,526	-	-	2,875,526	2,648,392
Healthy Eating	1,892,782	-	-	1,892,782	3,295,324
Total program services	<u>16,374,259</u>	<u>-</u>	<u>-</u>	<u>16,374,259</u>	<u>14,604,296</u>
Support services					
Management and general	2,166,693	-	-	2,166,693	2,224,834
Fundraising	335,432	-	-	335,432	308,288
Total support services	<u>2,502,125</u>	<u>-</u>	<u>-</u>	<u>2,502,125</u>	<u>2,533,122</u>
Financial administrative support services	<u>2,614,900</u>	<u>-</u>	<u>-</u>	<u>2,614,900</u>	<u>2,236,911</u>
Total functional expenses	<u>21,491,284</u>	<u>-</u>	<u>-</u>	<u>21,491,284</u>	<u>19,374,329</u>
Change in net assets	(10,401,250)	(603,115)	500	(11,003,865)	(4,325,617)
Net assets, beginning of year	<u>113,097,671</u>	<u>3,212,825</u>	<u>170,480</u>	<u>116,480,976</u>	<u>120,806,593</u>
Net assets, end of year	<u>\$ 102,696,421</u>	<u>\$ 2,609,710</u>	<u>\$ 170,980</u>	<u>\$ 105,477,111</u>	<u>\$ 116,480,976</u>

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

The Health Trust and Subsidiary
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2016
(With Comparative Totals for 2015)

	Program services				Support services			Financial administrative support services	2016 Total	2015 Total
	Healthy Living	Healthy Aging	Healthy Eating	Total program services	Management and general	Fundraising	Total support services			
Grants to others	\$ 2,330,915	\$ 168,236	\$ 962,511	\$ 3,461,662	\$ -	\$ -	\$ -	\$ 11,100	\$ 3,472,762	\$ 2,704,499
Salaries and related expenses										
Salaries and wages	3,323,743	802,786	460,881	4,587,410	813,966	126,690	940,656	1,761,366	7,289,432	6,593,809
Employee benefits	1,040,294	240,321	132,543	1,413,158	253,640	31,778	285,418	510,123	2,208,699	2,056,424
Payroll taxes	281,868	68,035	37,020	386,923	55,781	11,368	67,149	159,789	613,861	561,340
Total salaries and related expenses	<u>4,645,905</u>	<u>1,111,142</u>	<u>630,444</u>	<u>6,387,491</u>	<u>1,123,387</u>	<u>169,836</u>	<u>1,293,223</u>	<u>2,431,278</u>	<u>10,111,992</u>	<u>9,211,573</u>
Other expenses										
Purchased services	2,865,326	343,166	134,456	3,342,948	112,761	33,094	145,855	191,785	3,680,588	3,084,179
Supplies	347,982	716,953	47,490	1,112,425	74,230	22,983	97,213	37,879	1,247,517	1,144,476
Building and equipment rental	711,503	369,056	12,745	1,093,304	13,669	3,299	16,968	6,221	1,116,493	1,080,439
Investment management and bank fees	-	-	-	-	795,442	-	795,442	-	795,442	905,937
Depreciation	286,559	35,202	18,368	340,129	106,960	11,971	118,931	14,665	473,725	476,056
Professional fees	162,784	21,360	14,217	198,361	178,850	42,064	220,914	43,310	462,585	781,967
Other operating expenses	125,151	59,880	32,714	217,745	97,784	25,191	122,975	57,067	397,787	357,606
Building expense	40,989	15,360	20,750	77,099	113,914	19,019	132,933	-	210,032	209,294
Utilities	74,886	29,608	17,616	122,110	18,181	7,309	25,490	11,640	159,240	148,709
Insurance	13,951	5,563	1,471	20,985	85,109	666	85,775	7,110	113,870	109,841
Expenses related to rental properties	-	-	-	-	29,518	-	29,518	-	29,518	32,391
Income taxes	-	-	-	-	-	-	-	15,175	15,175	26,600
Total other expenses	<u>4,629,131</u>	<u>1,596,148</u>	<u>299,827</u>	<u>6,525,106</u>	<u>1,626,418</u>	<u>165,596</u>	<u>1,792,014</u>	<u>384,852</u>	<u>8,701,972</u>	<u>8,357,495</u>
Total functional expenses before reclassification	11,605,951	2,875,526	1,892,782	16,374,259	2,749,805	335,432	3,085,237	2,827,230	22,286,726	20,273,567
FASS expenses allocated	-	-	-	-	212,330	-	212,330	(212,330)	-	-
Total functional expenses	11,605,951	2,875,526	1,892,782	16,374,259	2,962,135	335,432	3,297,567	2,614,900	22,286,726	20,273,567
Less: expenses included with revenues on the consolidated statement of activities	-	-	-	-	(795,442)	-	(795,442)	-	(795,442)	(899,238)
Total functional expenses included in expense section on the consolidated statement of activities	<u>\$ 11,605,951</u>	<u>\$ 2,875,526</u>	<u>\$ 1,892,782</u>	<u>\$ 16,374,259</u>	<u>\$ 2,166,693</u>	<u>\$ 335,432</u>	<u>\$ 2,502,125</u>	<u>\$ 2,614,900</u>	<u>\$ 21,491,284</u>	<u>\$ 19,374,329</u>
Percentage of total	<u>54.0 %</u>	<u>13.4 %</u>	<u>8.8 %</u>	<u>76.2 %</u>	<u>10.1 %</u>	<u>1.6 %</u>	<u>11.6 %</u>	<u>12.2 %</u>	<u>100.0 %</u>	

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

The Health Trust and Subsidiary
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2016
(With Comparative Totals for 2015)

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ (11,003,865)	\$ (4,325,617)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	473,725	476,056
Contributions restricted for investment in donor restricted endowment funds	(500)	(500)
Unrealized loss on investments	5,437,240	1,786,516
Realized gain on investments	(880,423)	(2,954,622)
Changes in operating assets and liabilities		
Accounts receivable, net	52,462	(536,158)
Grants receivable	(36,120)	366,798
Prepaid expenses	16,463	(6,376)
Other current assets	7,442	(7,442)
Accounts payable	(5,745)	41,718
Accrued payroll and related liabilities	(73,297)	180,762
Grants payable	(103,691)	(1,219,321)
Other accrued expenses	(22,004)	(6,404)
Accrued expenses due to discontinued operations	(33,585)	(45,212)
Net cash used in operating activities	(6,171,898)	(6,249,802)
Cash flows from investing activities		
Purchases of investments	(17,585,600)	(42,463,343)
Proceeds from sales and maturity of investments	23,227,913	48,625,145
Purchases of property and equipment	(72,038)	(81,735)
Changes in restricted investments	53,243	45,733
Net cash provided by investing activities	5,623,518	6,125,800
Cash flows from financing activities		
Contributions restricted for investment in donor restricted endowment funds	500	500
Net cash provided by financing activities	500	500
Net decrease in cash and cash equivalents	(547,880)	(123,502)
Cash and cash equivalents, beginning of year	2,738,644	2,862,146
Cash and cash equivalents, end of year	\$ 2,190,764	\$ 2,738,644

Supplemental disclosure of cash flow information

Cash paid during the year for income taxes	\$ 29,173	\$ -
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The accompanying notes are an integral part of these consolidated financial statements.

The Health Trust and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

1. NATURE OF OPERATIONS

The Health Trust ("THT")

The Health Trust is a California nonprofit public benefit corporation founded in 1996 from the sale of three local nonprofit hospitals. For more than 20 years The Health Trust has been a catalyst for identifying and implementing innovative solutions to health and wellness issues in Silicon Valley. The Health Trust, with the exception of its Financial Administrative Support Services (FASS) subsidiary, 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* - provides more than 80,000 meals annually to older adults and disabled individuals who lack the ability to shop or cook for themselves, supporting the nutrition, health and independence of these residents.
- *AIDS Services* - is 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, and serving more than 800 low-income clients .
- *Children's Dental Centers* - on the East side of San Jose and in Sunnyvale provided more than 35,000 oral health visits for both preventive and restorative oral health care to over 20,000 children without ready access to a dentist.
- *Wellness Access and Education* - helps over 3,500 children and adults enroll in public health insurance programs each year, leads chronic disease and diabetes management classes for 600 adults and also educates local communities about health and wellness through grassroots activities. The annual Open Air Health Fair provides adults with free cholesterol and blood glucose testing, flu shots, vision screening, and health insurance and resource linkages
- *Family Resource Centers* - located in targeted zip codes in three Supervisorial Districts in San Jose, provide 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.
- *Destination: Home* - The Health Trust serves as the home for Destination: Home, a public/private partnership committed to ending homelessness in Santa Clara County.

Financial 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 (the "Subsidiary") of The Health Trust that is organized as a California for-profit corporation.

Consolidated Entities (the "Organization") - The Organization consists of The Health Trust and Financial Administrative Support Services as described above.

The Health Trust and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

2. PROGRAM SERVICES

In January of 2014, The Health Trust announced a five year recommitment to three initiatives - Healthy Living, Healthy Aging and Healthy Eating.

Healthy Living

The Healthy Living Initiative focuses on reducing and eliminating health disparities using the following strategies:

- Preventing and managing chronic disease through the delivery of evidence based classes and workshops;
- Providing low income people living with HIV/AIDS with case management, housing and nutrition services;
- Promoting healthy families school readiness programs, as well as parenting and family education, at family resource centers;
- Providing rapid re-housing for homeless individuals;
- Linking people to the health care they need through insurance enrollment and a "health market" at the Flea market;
- Providing medical nutrition therapy services to complement diabetes self management workshops;
- Providing oral health education and treatment services for children, and leading the campaign to bring water fluoridation to San Jose; and
- Promoting application of the Disruptive Innovation theory and practices within the nonprofit community.
- Destination: Home is working to end homelessness in Santa Clara County through collective impact strategies. The vision is to eradicate homelessness by leveraging local and national resources and inspiring community members to improve existing systems.

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:

- Leadership and Advocacy that includes:
 - Coordination of AGents for Change, a cadre of volunteers committed to advocating for social justice for older adults;

The Health Trust and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

2. PROGRAM SERVICES (continued)

Healthy Aging (continued)

- Providing information and assistance to older adults and their families through trained peer volunteers;
- System integration and reform through providing leadership and coordinating efforts to develop and enhance long term supports and services for older adults; and
- Delivering healthy meals and daily wellness checks to home bound older and disabled adults.

Healthy Eating

The Healthy Eating Initiative focuses on reducing obesity by increasing access to healthy foods and physical activity. The Initiative utilizes grant making, advocacy, and collaboration to support local efforts to create policies and environmental changes so that places - neighborhoods, work-sites, schools and other organizations - foster wellness and healthy behaviors. Strategies include:

- Supporting the development of urban/sustainable agriculture to expand access to fruits and vegetables;
- Developing social enterprises that increase access to healthy foods, especially in low-income communities, such as mobile produce vending and healthy corner stores and small farmers markets; and
- Increasing salad bars in schools.

Financial Administrative Support Services (FASS)

Financial Administrative Support Services 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 administrative support services revenue and program expenses on the consolidated statement of activities. Financial Administrative Support Services spun off as of July 1, 2012 from The Health Trust.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The accompanying consolidated financial statements include the accounts of The Health Trust and its wholly-owned subsidiary, Financial Administrative Support Services. All significant inter-company balances and transactions have been eliminated in consolidation.

The Health Trust and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting.

Financial statement 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 9).
- *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 consolidated 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, 2015, 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.

The Health Trust and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

The Health Trust and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

- *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, 2016 and 2015, the Organization did not have doubtful accounts and no allowance for doubtful accounts have been recorded.

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 \$2,000 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 39 years. Depreciation is charged to the activity benefiting from the use of the property or equipment.

Land and building held for investment

Investment properties include land and buildings that are held for long-term rental yields and/or for capital appreciation. Investment properties are initially recognized at cost and subsequently carried at fair value, determined by independent appraisers. Changes in fair values are recognized in the statement of activities. Upon the sale of an investment property, the difference between the sale proceeds and the carrying amount is recognized as a gain or loss in the statement of activities.

The Health Trust and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accrued paid time off

Accrued paid time off represents time earned, but not taken as of June 30, 2016 and 2015, and is included in "accrued payroll and related liabilities" in the consolidated statement of financial position. The accrued paid time off balance as of June 30, 2016 and 2015 was \$482,541 and \$451,042, 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 consolidated statement of activities. Instead they are recorded as assets and liabilities in the consolidated 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 consolidated financial statements the estimated value of these services is disclosed in Note 11.

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 the terms of the condition. Conditional promises to give as of June 30, 2016 were \$230,000. There were no conditional promises to give as of June 30, 2015.

The Health Trust and Subsidiary
Notes to Consolidated Financial Statements
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allocation of functional expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities and in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and support 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.

Income tax

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 Health Trust's tax-exempt purpose is subject to taxation as unrelated business income. In addition, The Health Trust 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.

FASS accounts for income taxes in accordance with the liability method whereby deferred tax asset and liability account balances are determined based on temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. A valuation allowance is established when management estimates that it is more likely than not that deferred tax assets will not be realized. The provision for income tax expense is comprised of income taxes payable for the current period, plus the net change in deferred tax amounts.

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 The Health Trust 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 the fiscal years ended June 30, 2015, 2014 and 2013 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, 2015, 2014, 2013 and 2012 could be subject to examination by state taxing authorities, generally for four years after they are filed.

The Health Trust and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising costs

The Organization's policy is to expense advertising costs as the costs are incurred. Marketing and advertising expense for the years ended June 30, 2016 and 2015 was \$27,290 and \$23,794, 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, 2016 for potential recognition or disclosure in the consolidated financial statements. The Organization did not have subsequent events that required recognition or disclosure in the financial statements for the fiscal year ended June 30, 2016. Subsequent events have been evaluated through the date the financial statements became available to be issued December 7, 2016.

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments and fair value measurements consist of the following:

	<u>2016</u>	<u>2015</u>
Investments	\$ 89,316,158	\$ 99,515,788
Investments - donor-restricted endowment	<u>170,980</u>	<u>170,480</u>
	<u>\$ 89,487,138</u>	<u>\$ 99,686,268</u>

The Health Trust and Subsidiary
Notes to Consolidated Financial Statements
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(With Comparative Totals for 2015)

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

Investments and fair value measurements consist of the following:

	<u>2016</u>	<u>2015</u>
International equities	\$ 22,473,494	\$ 26,072,387
Fixed income securities	17,454,589	19,705,063
Marketable alternatives	17,859,296	18,559,320
R.E.I.T. equities	9,169,416	9,694,280
Large cap value equities	7,510,525	8,469,474
All cap growth equities	7,237,678	8,301,561
Small cap equities	4,997,508	6,072,902
Venture capital funds and limited partnerships	<u>2,784,632</u>	<u>2,811,281</u>
	<u>\$ 89,487,138</u>	<u>\$ 99,686,268</u>

Capital commitments related to limited partnerships as of June 30, 2016 and 2015, were \$7,566,400 and \$6,566,400, respectively. As of June 30, 2016, \$4,462,414 was already contributed. Remaining capital contributions to be called are \$3,103,986.

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 following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
International equities	\$22,473,494	\$ -	\$ -	\$22,473,494
Fixed income securities	8,758,620	8,695,969	-	17,454,589
Marketable alternatives	-	-	17,859,296	17,859,296
R.E.I.T. equities	8,022,234	-	1,147,182	9,169,416
Large cap value equities	7,510,525	-	-	7,510,525
All cap growth equities	7,237,678	-	-	7,237,678
Small cap equities	4,997,508	-	-	4,997,508
Venture capital funds and limited partnerships	<u>-</u>	<u>-</u>	<u>2,784,632</u>	<u>2,784,632</u>
	<u>\$59,000,059</u>	<u>\$ 8,695,969</u>	<u>\$21,791,110</u>	<u>\$89,487,138</u>

The Health Trust and Subsidiary
Notes to Consolidated Financial Statements
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(With Comparative Totals for 2015)

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
International equities	\$26,072,387	\$ -	\$ -	\$26,072,387
Fixed income securities	9,936,179	9,768,884	-	19,705,063
Marketable alternatives	-	-	18,559,320	18,559,320
R.E.I.T. equities	8,898,892	-	795,388	9,694,280
Large cap value equities	8,469,474	-	-	8,469,474
All cap growth equities	8,301,561	-	-	8,301,561
Small cap equities	6,072,902	-	-	6,072,902
Venture capital funds and limited partnerships	-	-	2,811,281	2,811,281
	<u>\$67,751,395</u>	<u>\$ 9,768,884</u>	<u>\$22,165,989</u>	<u>\$99,686,268</u>

Investment earnings (losses) during the year consist of the following:

	<u>2016</u>	<u>2015</u>
Interest income	\$ 131,881	\$ 155,782
Dividend income	1,087,799	1,402,670
Net realized and unrealized gain (loss) on investments	<u>(4,556,817)</u>	<u>1,168,106</u>
	(3,337,137)	2,726,558
Investment expenses	<u>(788,948)</u>	<u>(893,981)</u>
	<u>\$ (4,126,085)</u>	<u>\$ 1,832,577</u>

The following table sets forth a summary of changes in the fair value of Level 3 investments were as follows:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 22,165,989	\$ 21,024,760
Net realized and unrealized gains (losses)	(1,033,029)	2,293,056
Investment management fees	(171,872)	(215,572)
Transfers in and out, net	(3,520,580)	(5,602,951)
Capital contributions	4,362,095	4,758,117
Proceeds from redemptions and distributions	<u>(11,493)</u>	<u>(91,421)</u>
Balance, end of year	<u>\$ 21,791,110</u>	<u>\$ 22,165,989</u>

The Health Trust and Subsidiary
Notes to Consolidated Financial Statements
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5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2016	2015
Land	\$ 2,350,000	\$ 2,350,000
Buildings	2,828,167	2,786,324
Leasehold improvements	2,487,624	2,477,896
Furniture and equipment	1,865,821	1,845,352
	9,531,612	9,459,572
Accumulated depreciation	(3,902,821)	(3,429,095)
	\$ 5,628,791	\$ 6,030,477

Depreciation expense for the years ended June 30, 2016 and 2015 was \$473,725 and \$476,056, respectively.

6. RESTRICTED INVESTMENTS AND 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 consolidated 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, 2016 and 2015, the balance of this retirement account was \$33,526 and \$67,111, respectively. Restricted investments also include balances in 457(f) deferred compensation plans for two executives.

7. 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, 2016 and 2015.

Land and building held for investment consist of the following:

	2016	2015
Morgan Hill property	\$ 7,500,000	\$ 7,500,000

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8. ENDOWMENT

The Organization's endowment of \$170,980 and \$170,480 as of June 30, 2016 and 2015, 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.

While the Uniform Prudent Management of Institutional Funds Act (UPMIFA) only applies to the Organization's Donor Restricted Endowment Funds in the amount of \$170,980 and \$170,480 as of June 30, 2016 and 2015, it is the intent of the trustees of The Health Trust to have the Finance and Investment Committee also apply the investment standards of UPMIFA in the management of its Board-Designated as Unrestricted Net Assets (Note 9) in the amounts of \$91,178,825 and \$11,517,596 as of June 30, 2016 and \$100,142,949 and \$12,954,722 as of June 30, 2015.

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, in making a determination to appropriate or accumulate, the institution shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, all of the following factors:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the endowment fund
- (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

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8. ENDOWMENT (continued)

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), as of June 30, 2016 and 2015, there were no deficiencies of this nature that are required to be reported in unrestricted net assets.

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.

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 34,022</u>	<u>\$ 170,980</u>	<u>\$ 205,002</u>

Endowment net asset composition by type of fund as of June 30, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 42,804</u>	<u>\$ 170,480</u>	<u>\$ 213,284</u>

The Health Trust and Subsidiary
Notes to Consolidated Financial Statements
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8. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Balance, June 30, 2015	\$ -	\$ 42,804	\$ 170,480	\$ 213,284
Contributions	-	-	500	500
Interest and dividends	-	2,783	-	2,783
Net realized and unrealized loss on investments	-	(9,771)	-	(9,771)
Investment fees	-	(1,794)	-	(1,794)
Balance, June 30, 2016	<u>\$ -</u>	<u>\$ 34,022</u>	<u>\$ 170,980</u>	<u>\$ 205,002</u>

Changes in endowment net assets for the fiscal year ended June 30, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Balance, June 30, 2014	\$ -	\$ 39,352	\$ 169,980	\$ 209,332
Contributions	-	-	500	500
Interest and dividends	-	3,330	-	3,330
Net realized and unrealized gain on investments	-	2,042	-	2,042
Investment fees	-	(1,920)	-	(1,920)
Balance, June 30, 2015	<u>\$ -</u>	<u>\$ 42,804</u>	<u>\$ 170,480</u>	<u>\$ 213,284</u>

9. DESIGNATED NET ASSETS

Under California Charitable Trust Law, The Health Trust's assets and income derived there from 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 Health Trust and Subsidiary
Notes to Consolidated Financial Statements
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9. DESIGNATED NET ASSETS (continued)

The board-designated fund of \$91,178,825 and \$100,142,949 as of June 30, 2016 and 2015, 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 \$11,517,596 and \$12,954,722 as of June 30, 2016 and 2015.

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
Other purposes	\$ 833,419	\$ 872,808
Destination: Home	700,494	982,504
Children's Dental Services	539,525	633,065
Meals on Wheels	242,776	235,860
Behavioral Health Contractors Association	68,557	64,935
Healthy Eating	62,433	299,895
Healthy Aging	50,739	17,443
AIDS services	40,340	38,189
Natalie Fund	32,183	32,183
Wellness Access and Education	28,244	24,943
Healthy Living	<u>11,000</u>	<u>11,000</u>
	<u>\$ 2,609,710</u>	<u>\$ 3,212,825</u>

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Notes to Consolidated Financial Statements
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10. TEMPORARILY RESTRICTED NET ASSETS (continued)

Temporarily restricted net assets released from restriction during the year were as follows:

	<u>2016</u>	<u>2015</u>
Destination: Home	\$ 928,214	\$ 1,625,653
Healthy Eating	290,725	443,541
Meals on Wheels	249,137	430,852
Wellness Access and Education	323,323	304,214
AIDS services	143,766	236,087
Children's Dental Services	113,540	113,246
Behavioral Health Contractors Association	97,552	96,729
Healthy Aging	99,589	70,819
Healthy Living	694	7,971
Donor advised funds	-	5,257
Other purposes	<u>2,500</u>	<u>1,000</u>
	<u>\$ 2,249,040</u>	<u>\$ 3,335,369</u>

11. CONTRIBUTIONS IN-KIND

The estimated fair value of donated supplies, rent and expert services are recorded as contributions.

Donated materials and services during the year were valued as follows:

	<u>2016</u>	<u>2015</u>
Supplies	\$ 672,493	\$ 572,692
Building and equipment rental	326,115	313,573
Outside training	2,746	-
Telephone	<u>2,250</u>	<u>-</u>
	<u>\$ 1,003,604</u>	<u>\$ 886,265</u>

Volunteers also donated 19,850 and 19,398 hours of non-professional services for the years ended June 30, 2016 and 2015, respectively. Management has estimated the value of these services to be \$457,939 and \$447,512. Since these services did not require specialized skills, they have not been recorded as support and expenses in the consolidated financial statements.

12. OPERATING LEASE COMMITMENTS

The Organization is obligated under the following leases excluding common area maintenance costs:

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12. OPERATING LEASE COMMITMENTS (continued)

- *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 \$6,343 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. The fair value of monthly lease is \$20,652 and is included as a component of contributions in-kind (see Note 11).
- *897 West El Camino Real, Sunnyvale, California* - lease rate of \$9,120 per month. The lease agreement ends on February 28, 2021.

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending June 30,</u>	
2017	\$ 404,213
2018	243,990
2019	130,677
2020	134,597
2021	<u>138,635</u>
	<u>\$ 1,052,112</u>

Rental expense, including in-kind, for the years ended June 30, 2016 and 2015 was \$1,116,493 and \$1,080,439, respectively.

13. BUILDING RENTAL INCOME

The Organization leases a portion of its office building to various entities. The leases expire on various dates through 2019. The Organization is responsible for all operating and maintenance expenses and other costs of ownership of the facility.

The future minimum rental income under the leases is as follows:

<u>Year ending June 30,</u>	
2017	\$ 312,814
2018	320,972
2019	<u>162,525</u>
	<u>\$ 796,311</u>

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Notes to Consolidated Financial Statements
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13. BUILDING RENTAL INCOME (continued)

Rental income for the years ended June 30, 2016 and 2015 was \$300,953 and \$272,900 respectively.

14. PENSION PLANS

The Health Trust and FASS sponsor pension plans under Internal Revenue Code Sections 401(a), 403(b), 401(k) and 457(f). The plans cover all employees who meet the eligibility requirements.

- *401(a) Plan* - 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, 2016 and 2015, contributions to the 401(a) plan were \$140,467 and \$109,528, respectively.
- *403(b) Plan* - 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, 2016 and 2015, employer contributions to the 403(b) plan were \$126,081 and \$115,001, respectively.
- *401(k) Plan* - Under the 401(k) 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, Financial Administrative Support Services matches 50% of an employee's contribution up to 6% of an employee's salary. For the years ended June 30, 2016 and 2015, employer contributions to the 401(k) plan were \$115,274 and \$106,940, respectively.
- *457(f) Plan* - 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, 2016 and 2015, The Health Trust did not make any contributions to the 457(f) plan.

15. 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. Board Members annually sign an Annual Affirmation and Conflict of Interest Statement.

SINGLE AUDIT REPORTS AND SCHEDULES



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

To the Board of Trustees and the Board of Directors
The Health Trust and Subsidiary
San Jose, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America (the "U.S.") and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The Health Trust (a California nonprofit corporation) and Subsidiary (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 7, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Jose, California

December 7, 2016



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE

To the Board of Trustees and the Board of Directors
The Health Trust and Subsidiary
San Jose, California

Report on Compliance for Each Major Federal Program

We have audited The Health Trust (a California nonprofit corporation) and Subsidiary (the "Organization")'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2016. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (the "U.S."); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the U.S.; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



Armanino^{LLP}
San Jose, California

December 7, 2016

The Health Trust
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<u>Expenditures of Federal Awards</u>			
U.S. Department of Housing and Urban Development			
Community Development Block Grants/Entitlement Grants			
Pass-through program from:			
City of Milpitas	14.218	N/A	\$ 6,351
City of San Jose	14.218	CPS-12-003B	100,650
Total Community Development Block Grants/Entitlement Grants			<u>107,001</u>
Housing Opportunities for Persons With AIDS			
Pass-through program from:			
City of San Jose	14.241	HOP-12-001B	735,889
City of San Jose	14.241	HPSH-13-001	411,640
Total Housing Opportunities for Persons With AIDS			<u>1,147,529</u>
Home Investment Partnerships Program			
Pass-through program from:			
City of San Jose	14.239	HOME-15-001	605,187
Total U.S. Department of Housing and Urban Development			<u>1,859,717</u>
Corporation for National and Community Service			
AmeriCorps			
Pass-through program from:			
State of California	94.006	14AFHY21-F157	32,493
Total Corporation for National and Community Service			<u>32,493</u>
U.S. Department of Health and Human Services			
Aging Cluster			
Pass-through program from Council on Aging:			
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	20161602.00	63,903
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	20160402.00	96,736
Nutrition Services Incentive Program	93.053	20160402.00	41,467
Total Pass through from Council on Aging - Aging Cluster			<u>202,106</u>
HIV Emergency Relief Grants Project Grants			
Pass-through program from:			
County of Santa Clara	93.914	N/A	1,393,830
Total U.S. Department of Health and Human Services			<u>1,595,936</u>

The accompanying notes to the Schedule of Expenditures of Federal Awards
are an integral part of this schedule.

The Health Trust
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. Department of Agriculture			
Community Food Projects	10.225	2013-33800- 20877	<u>64,768</u>
Local Food Promotion Program	10.172	15LFPPCA0138	<u>3,663</u>
Pass-through program from: Santa Clara County Public Health Department State Administrative Matching Grants for the Supplemental Nutrition Assistance Program			
	10.561	13-20507	<u>140,911</u>
Total U.S. Department of Agriculture			<u>209,342</u>
Total Expenditures of Federal Awards			<u>\$ 3,697,488</u>

The accompanying notes to the Schedule of Expenditures of Federal Awards
are an integral part of this schedule.

The Health Trust
Notes to Schedule of Expenditures of Federal Awards
June 30, 2016

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of The Health Trust under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the The Health Trust, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the The Health Trust.

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 Uniform Guidance, wherein certain types of expenditures are not allowable for limited as to reimbursement.

Pass-through entity identifying numbers

Pass-through entity identifying numbers are presented where available.

3. UNIFORM GUIDANCE FOR FEDERAL AWARDS

The OMB Uniform Guidance became effective on December 26, 2014. Non-Federal entities that receive a federal award with terms and conditions that incorporate the Uniform Guidance on or after December 26, 2014 are required to implement the reforms to the administrative requirements and cost principles. The Health Trust received certain federal awards that are subject to the Uniform Guidance during the year ended June 30, 2016.

The Health Trust
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

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

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
HIV Emergency Relief Formula Grants	93.914
<u>Aging Cluster:</u>	
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045
Nutrition Services Incentive Program	93.053

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes

The Health Trust
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported.

SECTION III - SUMMARY OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings to be reported.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS

There were no prior year findings.

SECTION V - CORRECTIVE ACTION PLAN

There is no corrective action plan required.