

## **The Health Trust and Subsidiary**

Consolidated Financial Statements  
and Single Audit Reports and Schedules

June 30, 2017  
(With Comparative Totals for 2016)



## TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 26
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 <i>Government Auditing Standards</i>	28 - 29
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	30 - 31
Schedule of Expenditures of Federal Awards	32 - 33
Notes to Schedule of Expenditures of Federal Awards	34
Schedule of Findings and Questioned Costs	35 - 36



## 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, 2017, 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; 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 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 of America. 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, 2017, 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 United States of America.

## **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 United States of America. 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 11, 2017, 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 2016 consolidated financial statements, and our report dated December 7, 2016 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, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Armanino<sup>LLP</sup>  
San Jose, California

December 11, 2017

The Health Trust and Subsidiary  
Consolidated Statement of Financial Position  
June 30, 2017  
(With Comparative Totals for 2016)

	2017	2016
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 3,738,870	\$ 2,190,764
Investments	94,437,266	89,316,158
Accounts receivable	4,225,258	2,178,478
Grants receivable	144,209	184,903
Contributions receivable	755,000	-
Prepaid expenses	204,175	140,511
Total current assets	103,504,778	94,010,814
Property and equipment, net	5,016,684	5,628,791
Other assets		
Restricted investments	77,589	99,170
Land and building held for investment	7,500,000	7,500,000
Investments - donor restricted endowment	171,481	170,980
Total other assets	7,749,070	7,770,150
Total assets	\$ 116,270,532	\$ 107,409,755
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 1,307,734	\$ 522,172
Accrued payroll and related liabilities	1,264,979	1,302,752
Grants payable	353,000	3,000
Other accrued expenses	71,942	71,194
Total current liabilities	2,997,655	1,899,118
Accrued expenses due to discontinued operations	-	33,526
Total liabilities	2,997,655	1,932,644
Net assets		
Unrestricted		
Designated for medically related services	96,603,351	91,178,825
Unrestricted	12,102,037	11,517,596
Total unrestricted	108,705,388	102,696,421
Temporarily restricted	4,396,008	2,609,710
Permanently restricted	171,481	170,980
Total net assets	113,272,877	105,477,111
Total liabilities and net assets	\$ 116,270,532	\$ 107,409,755

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, 2017  
(With Comparative Totals for 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Support and revenue					
Support					
Government grants	\$ 10,349,603	\$ 729,079	\$ -	\$ 11,078,682	\$ 8,081,356
Contributions	142,557	3,765,314	501	3,908,372	1,767,400
Contributions in-kind	<u>1,156,627</u>	<u>-</u>	<u>-</u>	<u>1,156,627</u>	<u>1,003,604</u>
Total support	<u>11,648,787</u>	<u>4,494,393</u>	<u>501</u>	<u>16,143,681</u>	<u>10,852,360</u>
Revenue					
Investment income (loss), net	10,748,478	33,360	-	10,781,838	(4,126,085)
Fees for financial administrative support services	2,585,871	-	-	2,585,871	2,661,591
Fee for other services	760,734	-	-	760,734	798,600
Rental income	<u>314,096</u>	<u>-</u>	<u>-</u>	<u>314,096</u>	<u>300,953</u>
Total revenue	<u>14,409,179</u>	<u>33,360</u>	<u>-</u>	<u>14,442,539</u>	<u>(364,941)</u>
Total support and revenue	26,057,966	4,527,753	501	30,586,220	10,487,419
Net assets released from restriction	<u>2,741,455</u>	<u>(2,741,455)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support, revenue and net assets released from restriction	<u>28,799,421</u>	<u>1,786,298</u>	<u>501</u>	<u>30,586,220</u>	<u>10,487,419</u>
Functional expenses					
Program services					
Healthy Living	12,676,203	-	-	12,676,203	11,605,951
Healthy Aging	3,372,241	-	-	3,372,241	2,875,526
Healthy Eating	<u>1,413,542</u>	<u>-</u>	<u>-</u>	<u>1,413,542</u>	<u>1,892,782</u>
Total program services	<u>17,461,986</u>	<u>-</u>	<u>-</u>	<u>17,461,986</u>	<u>16,374,259</u>
Support services					
Management and general	2,248,451	-	-	2,248,451	2,166,693
Fundraising	<u>466,243</u>	<u>-</u>	<u>-</u>	<u>466,243</u>	<u>335,432</u>
Total support services	<u>2,714,694</u>	<u>-</u>	<u>-</u>	<u>2,714,694</u>	<u>2,502,125</u>
Financial administrative support services	<u>2,613,774</u>	<u>-</u>	<u>-</u>	<u>2,613,774</u>	<u>2,614,900</u>
Total functional expenses	<u>22,790,454</u>	<u>-</u>	<u>-</u>	<u>22,790,454</u>	<u>21,491,284</u>
Change in net assets	6,008,967	1,786,298	501	7,795,766	(11,003,865)
Net assets, beginning 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>
Net assets, end of year	<u>\$108,705,388</u>	<u>\$ 4,396,008</u>	<u>\$ 171,481</u>	<u>\$113,272,877</u>	<u>\$105,477,111</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, 2017  
(With Comparative Totals for 2016)

	Program Services			Support Services			Financial Administrative Support Services	2017 Total	2016 Total	
	Healthy Living	Healthy Aging	Healthy Eating	Total Program Services	Management and General	Fundraising				Total Support Services
Grants to others	\$ 1,250,484	\$ 528,112	\$ 701,491	\$ 2,480,087	\$ -	\$ -	\$ -	\$ 10,825	\$ 2,490,912	\$ 3,472,762
Salaries and related expenses										
Salaries and wages	3,842,290	775,501	384,603	5,002,394	1,065,336	251,295	1,316,631	1,663,524	7,982,549	7,289,432
Employee benefits	1,059,717	228,095	105,695	1,393,507	252,798	47,346	300,144	522,420	2,216,071	2,208,699
Payroll taxes	332,105	67,383	31,786	431,274	64,767	21,244	86,011	147,927	665,212	613,861
Total salaries and related expenses	<u>5,234,112</u>	<u>1,070,979</u>	<u>522,084</u>	<u>6,827,175</u>	<u>1,382,901</u>	<u>319,885</u>	<u>1,702,786</u>	<u>2,333,871</u>	<u>10,863,832</u>	<u>10,111,992</u>
Other expenses										
Purchased services	4,652,616	371,811	90,525	5,114,952	162,075	18,053	180,128	169,389	5,464,469	3,680,588
Supplies	555,814	879,722	18,354	1,453,890	48,651	40,722	89,373	30,972	1,574,235	1,247,517
Building and equipment rental	536,662	377,911	8,624	923,197	9,942	1,994	11,936	6,108	941,241	1,116,493
Depreciation	208,872	29,899	23,511	262,282	101,254	13,873	115,127	8,655	386,064	473,725
Other operating expenses	105,081	64,550	14,704	184,335	68,258	23,342	91,600	74,611	350,546	397,787
Investment management and bank fees	-	-	-	-	316,330	-	316,330	-	316,330	795,442
Professional fees	3,889	3,170	3,633	10,692	130,208	21,703	151,911	43,763	206,366	462,585
Building expense	38,542	14,444	19,511	72,497	64,594	17,884	82,478	42,522	197,497	210,032
Utilities	76,232	26,083	10,019	112,334	18,064	8,032	26,096	11,466	149,896	159,240
Insurance	13,899	5,560	1,086	20,545	90,594	755	91,349	7,111	119,005	113,870
Expenses related to rental properties	-	-	-	-	30,263	-	30,263	-	30,263	29,518
Income taxes	-	-	-	-	-	-	-	16,128	16,128	15,175
Total other expenses	<u>6,191,607</u>	<u>1,773,150</u>	<u>189,967</u>	<u>8,154,724</u>	<u>1,040,233</u>	<u>146,358</u>	<u>1,186,591</u>	<u>410,725</u>	<u>9,752,040</u>	<u>8,701,972</u>
Total functional expenses before reclassification	12,676,203	3,372,241	1,413,542	17,461,986	2,423,134	466,243	2,889,377	2,755,421	23,106,784	22,286,726
FASS expenses allocated	-	-	-	-	141,647	-	141,647	(141,647)	-	-
Total functional expenses	12,676,203	3,372,241	1,413,542	17,461,986	2,564,781	466,243	3,031,024	2,613,774	23,106,784	22,286,726
Less: expenses included with revenues on the consolidated statement of activities	-	-	-	-	(316,330)	-	(316,330)	-	(316,330)	(795,442)
Total functional expenses included in expense section on the consolidated statement of activities	<u>\$ 12,676,203</u>	<u>\$ 3,372,241</u>	<u>\$ 1,413,542</u>	<u>\$ 17,461,986</u>	<u>\$ 2,248,451</u>	<u>\$ 466,243</u>	<u>\$ 2,714,694</u>	<u>\$ 2,613,774</u>	<u>\$ 22,790,454</u>	<u>\$ 21,491,284</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, 2017  
(With Comparative Totals for 2016)

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 7,795,766	\$ (11,003,865)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	386,064	473,725
Contributions restricted for investment in donor restricted endowment funds	(501)	(500)
Unrealized (gain) loss on investments	(70,306)	5,437,240
Realized gain on investments	(9,537,377)	(880,423)
Loss on sale and disposal of property and equipment	27,485	-
Changes in operating assets and liabilities		
Accounts receivable, net	(2,046,780)	52,462
Grants receivable	40,694	(36,120)
Contributions receivable	(755,000)	-
Prepaid expenses	(63,664)	16,463
Other current assets	-	7,442
Accounts payable	785,562	(5,745)
Accrued payroll and related liabilities	(37,773)	(73,297)
Grants payable	350,000	(103,691)
Other accrued expenses	748	(22,004)
Accrued expenses due to discontinued operations	(33,526)	(33,585)
Net cash used in operating activities	(3,158,608)	(6,171,898)
Cash flows from investing activities		
Purchases of investments	(67,679,919)	(17,585,600)
Proceeds from sales and maturity of investments	72,166,494	23,227,913
Purchases of property and equipment	-	(72,038)
Changes in restricted investments	21,080	53,243
Proceeds from sale of property and equipment	198,558	-
Net cash provided by investing activities	4,706,213	5,623,518
Cash flows from financing activities		
Contributions restricted for investments in donor restricted endowment funds	501	500
Net cash provided by financing activities	501	500
Net increase (decrease) in cash and cash equivalents	1,548,106	(547,880)
Cash and cash equivalents, beginning of year	2,190,764	2,738,644
Cash and cash equivalents, end of year	\$ 3,738,870	\$ 2,190,764
Supplemental disclosure of cash flow information		
Cash paid during the year for income taxes	\$ 2,238	\$ 29,173

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

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2017  
(With Comparative Totals for 2016)

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. Among the specific services that are included within the broad program service 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 400 low-income clients.
- *Children's Dental Centers* - on the East side of San Jose and in Sunnyvale provided more than 30,000 oral health visits for both preventive and restorative oral health care to children without ready access to a dentist.
- *Wellness Access and Education* - helps over 2,000 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 to over 500 individuals.
- *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.

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2017  
(With Comparative Totals for 2016)

1. NATURE OF OPERATIONS (continued)

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

2. PROGRAM SERVICES

The Health Trust aims to improve the health of vulnerable populations in Santa Clara County and Northern San Benito County through its three initiatives - Health 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 and permanent supportive housing for homeless individuals;
- Linking people to the health care they need through insurance enrollment and a "health market" at the San Jose 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.

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, 2017  
(With Comparative Totals for 2016)

2. PROGRAM SERVICES (continued)

Healthy Aging (continued)

- 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 increasing access to healthy foods for the most vulnerable residents of San Clara County. The Initiative utilizes grant making, advocacy, and collaboration to increase food security. 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;
- Increasing salad bars in schools; and
- Creating food access points at affordable housing sites, where we can reach more people at high risk of food insecurity, all in one place.

Destination Home

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.

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 from The Health Trust off as of July 1, 2012.

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2017  
(With Comparative Totals for 2016)

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.

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, 2016, from which the summarized information was derived.

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2017  
(With Comparative Totals for 2016)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2017  
(With Comparative Totals for 2016)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2017 and 2016, 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.

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2017  
(With Comparative Totals for 2016)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Accrued paid time off

Accrued paid time off represents time earned, but not taken as of June 30, 2017 and 2016, 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, 2017 and 2016 was \$505,264 and \$482,541, 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.

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2017  
(With Comparative Totals for 2016)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2017.

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.

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2017  
(With Comparative Totals for 2016)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2016, 2015 and 2014 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, 2016, 2015, 2014 and 2013 could be subject to examination by state taxing authorities, generally for four years after they are filed.

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, 2017 and 2016 was \$51,281 and \$27,290, respectively, and are included in other operating expenses on the consolidated statement of functional expenses.

Reclassifications

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

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments, including investments - donor restricted endowment, consist of the following:

	<u>2017</u>	<u>2016</u>
Marketable alternatives	\$ 25,751,912	\$ 17,859,296
Fixed income securities	23,519,632	17,454,589
Large cap value equities	17,414,054	7,510,525
International equities	16,974,501	22,473,494
All cap growth equities	6,813,075	7,237,678
Venture capital funds and limited partnerships	2,335,449	2,784,632
Small cap equities	1,800,124	4,997,508
R.E.I.T. equities	-	9,169,416
	<u>\$ 94,608,747</u>	<u>\$ 89,487,138</u>

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2017  
(With Comparative Totals for 2016)

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

Capital commitments related to limited partnerships as of June 30, 2017 and 2016, were \$7,566,400. As of June 30, 2017, \$4,502,414 was already contributed. Remaining capital contributions to be called are \$3,063,986.

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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Marketable alternatives	\$ -	\$ -	\$ 25,751,912	\$ 25,751,912
Fixed income securities	23,519,455	177	-	23,519,632
Large cap value equities	17,414,054	-	-	17,414,054
International equities	16,974,501	-	-	16,974,501
All cap growth equities	6,813,075	-	-	6,813,075
Venture capital funds and limited partnerships	-	-	2,335,449	2,335,449
Small cap equities	<u>1,800,124</u>	<u>-</u>	<u>-</u>	<u>1,800,124</u>
	<u>\$ 66,521,209</u>	<u>\$ 177</u>	<u>\$ 28,087,361</u>	<u>\$ 94,608,747</u>

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2017  
(With Comparative Totals for 2016)

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, 2016:

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

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

	<u>2017</u>	<u>2016</u>
Net realized and unrealized gain (loss) on investments	\$ 9,607,683	\$ (4,556,817)
Interest income	1,489,171	131,881
Dividend income	<u>1,314</u>	<u>1,087,799</u>
	11,098,168	(3,337,137)
Investment expenses	<u>(316,330)</u>	<u>(788,948)</u>
	<u>\$ 10,781,838</u>	<u>\$ (4,126,085)</u>

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

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 21,791,110	\$ 22,165,989
Net realized and unrealized gains (losses)	2,516,563	(1,033,029)
Investment management fees	(12,000)	(171,872)
Transfers in and out, net	3,290,154	(3,520,580)
Capital contributions	540,000	4,362,095
Proceeds from redemptions and distributions	<u>(38,466)</u>	<u>(11,493)</u>
Balance, end of year	<u>\$ 28,087,361</u>	<u>\$ 21,791,110</u>

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2017  
(With Comparative Totals for 2016)

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2017	2016
Land	\$ 2,350,000	\$ 2,350,000
Buildings	2,828,167	2,828,167
Leasehold improvements	1,443,293	2,487,624
Furniture and equipment	1,487,715	1,865,821
	8,109,175	9,531,612
Accumulated depreciation	(3,092,491)	(3,902,821)
	\$ 5,016,684	\$ 5,628,791

Depreciation expense for the years ended June 30, 2017 and 2016 was \$386,064 and \$473,725, 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, 2017 there was no balance in this retirement account. As of June 30, 2016, the balance of this retirement account was \$33,526. 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, 2017 and 2016.

Land and building held for investment consist of the following:

	2017	2016
Morgan Hill property	\$ 7,500,000	\$ 7,500,000

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2017  
(With Comparative Totals for 2016)

8. ENDOWMENT

The Organization's endowment of \$171,481 and \$170,980 as of June 30, 2017 and 2016, 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 \$171,481 and \$170,980 as of June 30, 2017 and 2016, 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 \$96,603,351 and \$12,102,037 as of June 30, 2017 and \$91,178,825 and \$11,517,596 as of June 30, 2016.

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

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2017  
(With Comparative Totals for 2016)

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, 2017 and 2016, 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, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 67,382	\$ 171,481	\$ 238,863

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	\$ -	\$ 34,022	\$ 170,980	\$ 205,002

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2017  
(With Comparative Totals for 2016)

8. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, June 30, 2016	\$ -	\$ 34,022	\$ 170,980	\$ 205,002
Contributions	-	-	501	501
Interest and dividends	-	3,775	-	3,775
Net realized and unrealized gain on investments	-	30,359	-	30,359
Investment fees	-	(774)	-	(774)
Balance, June 30, 2017	<u>\$ -</u>	<u>\$ 67,382</u>	<u>\$ 171,481</u>	<u>\$ 238,863</u>

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>

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  
June 30, 2017  
(With Comparative Totals for 2016)

9. DESIGNATED NET ASSETS (continued)

The board-designated fund of \$96,603,351 and \$91,178,825 as of June 30, 2017 and 2016, is reserved for medically related services and expenditures provided within Santa Clara County and Northern San Benito County (or for the benefit of residents of that service area) 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 \$12,102,037 and \$11,517,596 as of June 30, 2017 and 2016.

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Destination: Home	\$ 2,294,117	\$ 700,494
Other purposes	901,235	799,397
Children's Dental Services	538,739	539,525
Healthy Eating	230,946	62,433
Meals on Wheels	180,366	242,776
Endowment earnings	67,382	34,022
Behavioral Health Contractors Association	57,355	68,557
Wellness Access and Education	40,452	28,244
Healthy Aging	26,294	50,739
AIDS services	25,939	40,340
Natalie Fund	22,183	32,183
Healthy Living	<u>11,000</u>	<u>11,000</u>
	<u>\$ 4,396,008</u>	<u>\$ 2,609,710</u>

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2017  
(With Comparative Totals for 2016)

10. TEMPORARILY RESTRICTED NET ASSETS (continued)

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

	<u>2017</u>	<u>2016</u>
Destination: Home	\$ 1,435,560	\$ 928,214
Meals on Wheels	430,995	249,137
Wellness Access and Education	293,798	323,323
Children's Dental Services	200,787	113,540
AIDS services	132,696	143,766
Behavioral Health Contractors Association	105,077	97,552
Healthy Eating	84,565	290,725
Healthy Aging	34,028	99,589
Other purposes	12,400	2,500
Natalie fund	10,000	-
Healthy Living	<u>1,549</u>	<u>694</u>
	<u>\$ 2,741,455</u>	<u>\$ 2,249,040</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>2017</u>	<u>2016</u>
Supplies	\$ 817,467	\$ 672,493
Building and equipment rental	339,160	326,115
Outside training	-	2,746
Telephone	<u>-</u>	<u>2,250</u>
	<u>\$ 1,156,627</u>	<u>\$ 1,003,604</u>

Volunteers also donated 24,943 and 19,850 hours of non-professional services for the years ended June 30, 2017 and 2016, respectively. Management has estimated the value of these services to be \$602,124 and \$457,939. Since these services did not require specialized skills, they have not been recorded as support and expenses in the consolidated financial statements.

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2017  
(With Comparative Totals for 2016)

12. COMMITMENTS AND CONTINGENCIES

Contracts

The Organization's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose of such audits is to determine whether program funds were used in accordance with their respective guidelines and regulations. While management believes program funds were utilized in accordance with program guidelines, it is possible that funded program costs could ultimately be disallowed. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, the Organization has recorded no additional provisions for the possible disallowance of program costs on its financial statements.

The Organization has a contract with City of Sunnyvale for the purpose of providing the Meals on Wheels program. The total contract for 2017 was \$16,000. Total expenditures incurred under the contract for the year ended June 30, 2017 totaled \$16,000.

Litigation

In the normal course of operations, the Organization is involved in various legal discussions. The Organization's management does not expect any of these discussions to lead to legal proceedings resulting in material adverse effect on the Organization's financial statements.

13. OPERATING LEASE COMMITMENTS

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

- *1153 South King Road, San Jose, California* - lease rate of \$23,000 per month with escalating payments. The lease agreement was transferred to a third party in January 2017.
- *46 and 48A Race Street, San Jose, California* - lease rate of \$6,500 per month. The lease agreement ends on June 30, 2018.
- *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 \$28,300 and is included as a component of contributions in-kind (see Note 11).
- *897 West El Camino Real, Sunnyvale, California* - lease rate of \$9,720 per month. The lease agreement was transferred to a third party in January 2017.
- *1043 Garland Ave. Santa Clara, California* - lease rate of \$2,500 per month. The lease agreement ends June 30, 2021.

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2017  
(With Comparative Totals for 2016)

13. OPERATING LEASE COMMITMENTS (continued)

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

<u>Year ending June 30,</u>	
2018	\$ 111,647
2019	31,827
2020	32,782
2021	<u>33,765</u>
	<u>\$ 210,021</u>

Rental expense, including in-kind, for the years ended June 30, 2017 and 2016 was \$941,241 and \$1,116,493, respectively.

14. 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>	
2018	\$ 320,879
2019	<u>166,506</u>
	<u>\$ 487,385</u>

Rental income for the years ended June 30, 2017 and 2016 was \$314,096 and \$300,953 respectively.

15. 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, 2017 and 2016, contributions to the 401(a) plan were \$152,025 and \$140,467, respectively.

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2017  
(With Comparative Totals for 2016)

15. PENSION PLANS (continued)

- *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, 2017 and 2016, employer contributions to the 403(b) plan were \$133,578 and \$126,081, 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, 2017 and 2016, employer contributions to the 401(k) plan were \$119,080 and \$115,274, 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, 2017 and 2016, The Health Trust did not make any contributions to the 457(f) plan.

16. CONFLICT OF INTEREST POLICY

The Board of Trustees has adopted a Conflict of Interest Policy to ensure the highest ethical conduct, integrity and transparency in all their dealings. Trustees and Officers annually review and acknowledge the Policy, which provides clear guidance and procedures to Trustees and Officers regarding the identification, disclosure, management, and resolution of real or perceived conflicts of interest.

17. SUBSEQUENT EVENTS

Management of the Organization has evaluated events and transactions subsequent to June 30, 2017 for potential recognition or disclosure in the consolidated financial statements. Other than as described below, the Organization did not have any other subsequent events that required recognition or disclosure in the financial statements for the fiscal year ended June 30, 2017. Subsequent events have been evaluated through the date the financial statements became available to be issued December 11, 2017.

On November 28, 2017 the Organization entered into an Asset Transfer Agreement (the "Agreement") with Destination: Home SV, a newly formed California nonprofit public benefit corporation. Per the terms of the Agreement, the Organization terminated its fiscal sponsorship of the Destination: Home program, and transferred certain assets and liabilities related to the program to Destination: Home SV. The Organization's total net assets related to the Destination: Home program as of November 29, 2017, the effective transfer date per the Agreement, was \$2,144,356 of which \$1,157,994 was transferred to Destination: Home SV as of December 11, 2017. Final accounting for the transaction is not required to be completed until 60 days after the effective transfer date.

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 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, 2017, 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 11, 2017.

### **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.



Armanino<sup>LLP</sup>  
San Jose, California

December 11, 2017



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, 2017. 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 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, 2017.

## 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<sup>LLP</sup>  
San Jose, California

December 11, 2017

The Health Trust  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2017

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	\$ 5,000
City of San Jose	14.218	CPS-12-003C	100,650
Total Community Development Block Grants/Entitlement Grants			<u>105,650</u>
Housing Opportunities for Persons With AIDS			
Pass-through program from:			
City of San Jose	14.241	HOP-16-003	732,229
City of San Jose	14.241	HPSH-13-001A	105,631
City of San Jose	14.241	HPSH-16-001	312,457
City of San Jose	14.241	HVAV-16-001	12,107
Total Housing Opportunities for Persons With AIDS			<u>1,162,424</u>
Home Investment Partnerships Program			
Pass-through program from:			
City of San Jose	14.239	HOME-15-002A	<u>1,293,982</u>
Total U.S. Department of Housing and Urban Development			<u>2,562,056</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	20171601.00	93,765
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	20170402.00	105,142
Nutrition Services Incentive Program	93.053	20170402.00	28,081
Total Pass through from Council on Aging - Aging Cluster			<u>226,988</u>
HIV Emergency Relief Grants Project Grants			
Pass-through program from:			
County of Santa Clara	93.914	N/A	<u>1,423,787</u>
Total U.S. Department of Health and Human Services			<u>1,650,775</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, 2017

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>11,983</u>
Local Food Promotion Program	10.172	15LFPPCA0138	<u>76,397</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>29,263</u>
Total U.S. Department of Agriculture			<u>117,643</u>
Federal Emergency Management Agency			
Emergency Food and Shelter Program			
Total Federal Emergency Management Agency	97.024	N/A	<u>14,700</u>
			<u>14,700</u>
Total Expenditures of Federal Awards			<u>\$ 4,345,174</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, 2017

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, 2017. 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. INDIRECT COST RATE

The Health Trust has elected to not use the 10% de minimus indirect cost rate for federal awards. The Health Trust applies indirect costs in accordance with the specific terms of its federal award agreements.

The Health Trust  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2017

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>
Housing Opportunities for Persons With AIDS	14.241
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, 2017

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.