

The Health Trust and Subsidiary

Consolidated Financial Statements
and Single Audit Reports and Schedules

June 30, 2019
(With Comparative Totals for 2018)



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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, 2019, 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.

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, 2019, 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Organization has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

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 20, 2019, 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 the effectiveness of the Organization's 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 2018 consolidated financial statements, and our report dated December 7, 2018 expressed an unmodified opinion on those audited consolidated financial statements. As part of our audit of the 2019 financial statements, we also audited the adjustments to the 2018 financial statements to apply the change in accounting principle discussed above. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, adjusted for the change in accounting principle discussed above, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived. Also, in our opinion, such adjustments are appropriate and have been properly applied.



Armanino^{LLP}
San Jose, California

December 20, 2019

The Health Trust and Subsidiary
Consolidated Statement of Financial Position
June 30, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,057,444	\$ 2,158,650
Restricted cash	126,459	110,042
Investments	96,497,193	97,109,148
Grants receivable	5,897,555	5,075,693
Contributions receivable	373,365	101,732
Prepaid expenses and other current assets	<u>271,753</u>	<u>262,569</u>
Total current assets	<u>104,223,769</u>	<u>104,817,834</u>
Noncurrent assets		
Restricted investments	-	52,448
Land and building held for investment	7,500,000	7,500,000
Property and equipment, net	4,381,637	4,547,390
Investments - donor restricted endowment	<u>171,481</u>	<u>171,481</u>
Total noncurrent assets	<u>12,053,118</u>	<u>12,271,319</u>
Total assets	<u>\$ 116,276,887</u>	<u>\$ 117,089,153</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 391,049	\$ 407,920
Accrued payroll and related liabilities	1,026,619	1,334,198
Other accrued expenses	125,237	73,962
Due to Destination: Home SV (see Note 1)	-	668,348
Grants payable	1,623,389	1,283,498
Deferred revenue	<u>50,000</u>	<u>-</u>
Total current liabilities	<u>3,216,294</u>	<u>3,767,926</u>
Net assets		
Without donor restrictions		
Designated for medically related services	98,040,863	98,842,413
Designated for programs	230,359	206,077
Undesignated	<u>12,754,678</u>	<u>12,369,450</u>
Total without donor restrictions	<u>111,025,900</u>	<u>111,417,940</u>
With donor restrictions		
Restricted for a specified purposes	1,769,253	1,647,781
Subject to appropriation and spending policy	93,959	84,025
Held in perpetuity	<u>171,481</u>	<u>171,481</u>
Total with donor restrictions	<u>2,034,693</u>	<u>1,903,287</u>
Total net assets	<u>113,060,593</u>	<u>113,321,227</u>
Total liabilities and net assets	<u>\$ 116,276,887</u>	<u>\$ 117,089,153</u>

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, 2019
(With Comparative Totals for 2018)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>	<u>2018 Total</u>
Support and revenue				
Support				
Government grants	\$ 11,227,126	\$ 234,336	\$ 11,461,462	\$ 12,538,419
Contributions	200,895	1,538,451	1,739,346	2,071,919
Contributions in-kind	1,285,994	-	1,285,994	1,091,224
Special events, net of costs of \$10,972	<u>151,265</u>	<u>-</u>	<u>151,265</u>	<u>-</u>
Total support	<u>12,865,280</u>	<u>1,772,787</u>	<u>14,638,067</u>	<u>15,701,562</u>
Investment income, net	3,722,881	18,285	3,741,166	6,745,041
Fees for financial administrative support services	3,004,804	-	3,004,804	2,674,974
Fee for other services	466,488	-	466,488	366,895
Rental income	439,690	-	439,690	343,834
Net assets released from restriction	<u>1,659,666</u>	<u>(1,659,666)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>22,158,809</u>	<u>131,406</u>	<u>22,290,215</u>	<u>25,832,306</u>
Functional expenses				
Program services	16,228,882	-	16,228,882	17,459,047
Management and general	2,599,361	-	2,599,361	2,436,076
Fundraising	662,787	-	662,787	634,383
Financial administrative support services	<u>3,059,819</u>	<u>-</u>	<u>3,059,819</u>	<u>2,635,894</u>
Total functional expenses	<u>22,550,849</u>	<u>-</u>	<u>22,550,849</u>	<u>23,165,400</u>
Change in net assets from operations	<u>(392,040)</u>	<u>131,406</u>	<u>(260,634)</u>	<u>2,666,906</u>
Non-operating activity				
Net asset transfer (see Note 1)	-	-	-	2,276,711
Loss on sale of dental clinic	<u>-</u>	<u>-</u>	<u>-</u>	<u>341,845</u>
Total non-operating activity	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,618,556</u>
Change in net assets	(392,040)	131,406	(260,634)	48,350
Net assets, beginning of year	<u>111,417,940</u>	<u>1,903,287</u>	<u>113,321,227</u>	<u>113,272,877</u>
Net assets, end of year	<u>\$ 111,025,900</u>	<u>\$ 2,034,693</u>	<u>\$ 113,060,593</u>	<u>\$ 113,321,227</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, 2019
(With Comparative Totals for 2018)

	Program Services					Support Services			Financial Administrative	2019	2018
	Chronic Disease Services			Food & Nutrition Services	Total Program Services	Management and General	Fundraising	Total Support Services	Support Services	Total	Total
	Community Health Promotion	HIV/AIDS Services	Housing Services								
Grants to others	\$ 646,608	\$ 295,246	\$ 343,432	\$ 436,502	\$ 1,721,788	\$ -	\$ -	\$ -	\$ 3,025	\$ 1,724,813	\$ 1,493,030
Salaries and related expenses											
Salaries and wages	836,600	1,135,587	1,679,072	851,088	4,502,347	773,780	387,501	1,161,281	2,230,532	7,894,162	8,459,497
Employee benefits	244,092	308,339	522,052	257,256	1,331,739	189,775	94,073	283,848	676,230	2,291,818	2,382,774
Payroll taxes	75,308	95,284	137,425	69,373	377,390	66,443	31,879	98,322	191,218	666,931	695,904
Total salaries and related expenses	1,156,000	1,539,210	2,338,549	1,177,717	6,211,476	1,029,998	513,453	1,543,451	3,097,980	10,852,911	11,538,175
Other expenses											
Purchased services	44,990	116,913	4,524,330	1,275,507	5,961,740	191,483	25,258	216,741	193,775	6,372,257	6,460,814
Supplies	141,584	107,340	137,936	941,427	1,328,287	44,311	70,737	115,048	42,831	1,486,166	1,463,564
Building and equipment rental	70,681	81,293	100,118	227,562	479,654	12,003	3,596	15,599	146,419	641,671	659,439
Other operating expenses	62,193	22,431	41,894	110,310	236,828	112,299	19,017	131,316	85,007	453,151	514,289
Expenses related to rental properties	-	-	-	-	-	263,363	-	263,363	-	263,363	29,766
Legal and professional fees	11,331	1,453	5,389	2,249	20,422	193,240	1,626	194,866	200	215,485	303,251
Depreciation	18,405	5,250	3,291	45,027	71,973	41,054	8,704	49,758	21,934	143,663	203,470
Building expense	27,638	9,146	5,457	27,514	69,755	53,370	15,034	68,404	-	138,159	218,490
Utilities	11,244	23,481	32,081	36,959	103,765	12,722	4,117	16,839	13,539	134,144	144,003
Insurance	3,618	5,647	8,341	5,588	23,194	92,520	1,245	93,765	8,107	125,066	121,509
Income taxes	-	-	-	-	-	-	-	-	-	-	15,600
Total other expenses	391,684	372,954	4,858,837	2,672,143	8,295,618	1,016,365	149,334	1,165,699	511,812	9,973,125	10,134,195
Total functional expenses before reclassification	2,194,292	2,207,410	7,540,818	4,286,362	16,228,882	2,046,363	662,787	2,709,150	3,612,817	22,550,849	23,165,400
FASS expenses allocated	-	-	-	-	-	552,998	-	552,998	(552,998)	-	-
Total functional expenses	\$ 2,194,292	\$ 2,207,410	\$ 7,540,818	\$ 4,286,362	\$ 16,228,882	\$ 2,599,361	\$ 662,787	\$ 3,262,148	\$ 3,059,819	\$ 22,550,849	\$ 23,165,400

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, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ (260,634)	\$ 48,350
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	182,431	203,470
Unrealized (gain) loss on investments	2,264,517	(1,604,811)
Realized gain on investments	(517,209)	(1,167,807)
Loss on disposal of property and equipment	6,155	18,212
Loss on sale of dental clinic	-	341,845
Changes in operating assets and liabilities		
Grants receivable	(821,862)	(850,435)
Contributions receivable	(271,633)	797,477
Prepaid expenses and other current assets	(9,184)	(58,394)
Accounts payable	(16,871)	(916,521)
Accrued payroll and related liabilities	(307,579)	85,926
Other accrued expenses	51,275	2,020
Due to Destination: Home SV	(668,348)	668,348
Grants payable	339,891	930,498
Deferred revenue	50,000	-
Net cash provided by (used in) operating activities	<u>20,949</u>	<u>(1,501,822)</u>
Cash flows from investing activities		
Purchases of investments	(10,594,733)	(20,107,788)
Proceeds from sale and maturity of investments	9,459,380	20,208,524
Purchases of property and equipment	(22,833)	(119,241)
Changes in restricted investments	52,448	25,141
Proceeds from sale of dental clinic	-	25,008
Net cash provided by (used in) investing activities	<u>(1,105,738)</u>	<u>31,644</u>
Net decrease in cash, cash equivalents and restricted cash	(1,084,789)	(1,470,178)
Cash, cash equivalents and restricted cash, beginning of year	<u>2,268,692</u>	<u>3,738,870</u>
Cash, cash equivalents and restricted cash, end of year	<u><u>\$ 1,183,903</u></u>	<u><u>\$ 2,268,692</u></u>
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 1,057,444	\$ 2,158,650
Restricted cash	<u>126,459</u>	<u>110,042</u>
	<u><u>\$ 1,183,903</u></u>	<u><u>\$ 2,268,692</u></u>

Supplemental disclosure of cash flow information

Cash paid during the year for income taxes	\$ 1,795	\$ 3,500
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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, 2019
(With Comparative Totals for 2018)

1. NATURE OF OPERATIONS

The Health Trust ("THT")

The Health Trust's mission is to build health equity in Silicon Valley. The Health Trust believes that everyone in our community should have the opportunity to be healthy. A person's income, race, immigration status, language, age, or zip code should never act as a barrier to health.

In 1996, THT was formed from the sale of three local nonprofit hospitals. Since then, The Health Trust has served the Silicon Valley community as an operating foundation. For over 20 years THT has ensured that health related grants, policies, and services exist to help give everyone the opportunity to be healthy - especially the most vulnerable. 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.

In Fiscal Year 2019, THT embarked on a new strategic plan to focus its efforts to have maximum impact in the community. The Health Trust uses a multifaceted approach when tackling health disparities plaguing the most vulnerable populations in our community: older adults, recently housed individuals, and people at risk of, or living with, a chronic condition.

THT aligns its roles as a funder, a provider, and an advocate to create lasting change for the people it serves and to the systems and policies affecting their health. The Health Trust's focus is categorized into three areas: Improving Health Through Food, Making Chronic Diseases More Preventable and Manageable, and Prioritizing Health in Housing.

Funder

As a funder, The Health Trust awards grants to community-based organizations and community initiatives that are building health equity. The Health Trust seeks to amplify its role as a grantmaker by partnering with other like-minded funders.

Annually, The Health Trust commits to invest over \$2,000,000 through its endowment, which provides a direct benefit to residents of Santa Clara and Northern San Benito counties. These restricted dollars are awarded through Health Partnership, Emerging Opportunity, and Community Grants made to nonprofit and public agencies that support the health and wellbeing of our most vulnerable populations.

Provider

Chronic Disease Services: provides community-based, chronic disease prevention and management resources to individuals living with complex health conditions.

The Health Trust and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

1. NATURE OF OPERATIONS (continued)

- *HIV/AIDS Services* - THT is the largest non-medical program in Santa Clara County, providing a variety of services to low-income Santa Clara County residents living with HIV/AIDS. These services include, but are not limited to, medical and non-medical case management, care coordination, and food assistance - serving more than 800 low-income clients.
- *Community Health Promotion* - THT helps more than 2,600 children and adults enroll in public health insurance programs each year, leads evidence based chronic disease self-management and falls prevention classes for 600 adults, and educates local communities about health and wellness through grassroots activities.

Food & Nutrition Services: focuses on providing nutritionally appropriate food to meet the complex health conditions of our most vulnerable populations. Specific services include:

- *Food is Medicine* - The Health Trust, as a member of the California Food is Medicine Coalition (Cal FIMC), is participating in the Medi-Cal Medically Tailored Meals Pilot Program. The goal of the program is to reduce 30-day and 90-day hospital readmissions for participating clients, reduce healthcare costs, and improve health outcomes. The 75 clients served by THT in this program received over 12,000 meals and approximately 2,900 wellness checks.
- *Meals on Wheels* - delivers hot, nutritious meals five days a week, sometimes with the option of a once-a-week frozen meal, to seniors and adults with disabilities. In addition to the meals, The Health Trust's drivers also provide daily wellness checks, making sure that its clients are safe, alert and stable. In Fiscal Year 2019, THT provided over 95,000 meals and 62,000 wellness checks for older adults and disabled individuals.
- *Friends from Meals on Wheels* - a partnership between THT Meals on Wheels program, Santa Clara County's Senior Nutrition Program, and Sourcewise, Friends from Meals on Wheels is a friendly visitor program aimed to decrease social isolation by providing over 3,600 friendly visits and phone calls to clients.
- *Jerry Larson FOODBasket* - is a clean, bright and energized space committed to strengthening the health of The Health Trust's clients by delivering top notch nutrition services and deeply satisfying engagement opportunities for volunteers while maximizing donor and partners' contributions. Annually, The Health Trust distributes approximately 560,000 pounds of food donated by Second Harvest of Silicon Valley to its clients receiving Chronic Disease and Housing services.
- *Food in Housing* - a product of THT's Food for Everyone work, the Food in Housing program increases food security for high-need permanent supportive housing clients by providing them with nutritionally appropriate bags or boxes of food filled with non-perishables, produce, and/or cooked or no-cook food.

The Health Trust and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

1. NATURE OF OPERATIONS (continued)

- *Produce Mobile at Tropicana* - in partnership with Second Harvest of Silicon Valley, every first Wednesday of the month fresh produce is distributed to community members at the Tropicana Shopping Center in East San Jose. Approximately 80,000 pounds of food is distributed to the community yearly.
- *Food Access Pilot Project* - in partnership with the State Office of AIDS THT developed the Food Access Pilot Project (FAPP) for people living with HIV/AIDS in select California counties. Based on an intake nutrition assessment, FAPP aims to provide approximately 30% of the daily caloric needs to 166 clients who lack optimal nutrition.

Housing Services: provides people living with HIV/AIDS and formerly homeless individuals the support they need to remain stably housed. The Health Trust recognizes stable housing as a necessary factor to improving the health of people living with HIV/AIDS and formerly homeless individuals. THT is one of the largest supportive housing case management providers in the County, providing rapid rehousing, permanent supportive housing, and rental check processing for more than 1,100 individuals who have been homeless annually.

Advocate

As an advocate, The Health Trust champions systems and policy changes that align with its focus areas. The Health Trust seeks to amplify its role as a bold policy advocate by partnering with government officials, local leaders, and community-based organizations to catalyze change on a broader, county-wide level.

- *Getting to Zero* - The Health Trust is the backbone agency for Getting to Zero (GTZ), a community effort working toward Zero HIV/AIDS stigma and discrimination, Zero new HIV infections, and Zero deaths related to HIV/AIDS. The Health Trust also supports the GTZ initiative through its funder role, providing grant management support for GTZ mini-grants.
- *Food for Everyone* - In March 2016, The Health Trust released Food for Everyone, an assessment of healthy food access among low-income seniors and individuals who are homeless in San Jose. This report led – and continues to lead – to the development of new efforts that make food accessible for low-income older adults living in affordable housing and recently housed individuals in permanent supportive housing.
- *Fluoridation* - For 10 years, The Health Trust led a coalition including the Santa Clara County Public Health Department, elected officials, local dentists and oral hygienists, and community members to support water fluoridation locally. In November 2011, the Santa Clara Valley Water District board unanimously voted to support fluoridation at the district's three water treatment plants. In December 2012, the Water District entered into a public/private partnership to fund fluoridation. As fluoridation efforts progress, the Santa Clara County Public Health Department has embraced a leadership role in fluoridation implementation.

The Health Trust and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

1. NATURE OF OPERATIONS (continued)

Destination Home: Destination Home is a public/private partnership committed to ending 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. On November, 28 2017 The Health Trust 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 agreed to transfer all 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 date per the Agreement, was \$2,276,711. The transfer of the net assets is included as a component of non-operating activity on the consolidated statement of activities. At June 30, 2019 and 2018, the Organization has a liability of \$0 and \$668,348, respectively.

The value of the Destination Home assets and liabilities, at the effective date, were as follows:

Cash and cash equivalents	\$ 1,402,936
Government grants receivable	346,574
Accounts receivable - other	330,145
Due from The Health Trust	<u>197,056</u>
	<u><u>\$ 2,276,711</u></u>

Financial Administrative Support Service (FASS): FASS 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. 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 related revenue and expenses are recorded as fees for financial administrative support services revenue and program expense on the consolidated statement of activities.

Consolidated Entities (the "Organization"): The Organization consists of The Health Trust and Financial Administrative Support Services

2. 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, 2019
(With Comparative Totals for 2018)

2. 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 in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Financial statement presentation

The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations. In accordance with U.S. GAAP, the Organization reports its financial position and operating activities in two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

- *Net assets without donor restrictions* - 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 7).
- *Net assets with donor restrictions* - 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. Net assets held in perpetuity include those assets which are subject to a non-expiring donor restriction, such as endowments.

Change in accounting principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 makes certain improvements to current reporting requirements, including:

1. Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions).
2. Enhancing disclosures about:
 - a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.
 - b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.
 - c. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the consolidated statement of financial position date.
 - d. Methods used to allocate costs among program and support functions.

The Health Trust and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

3. Reporting investment return net of external and direct internal investment expenses.

The Organization adopted the provisions of ASU 2016-14 in 2019, and has applied the amendment on a retrospective basis in 2018 with the option to omit the disclosures about liquidity and availability of resources for the prior-year comparative period.

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.

Restricted cash

Restricted cash consists of cash held on the behalf of a California public benefit corporation, for which the Organization serves as the fiscal sponsor.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments are stated at fair value and purchases and sales are recorded on a trade or contract date basis. The estimated fair value of investments is based on quoted market prices, except for alternative investments for which quoted market prices are not available. Alternative investments include private equities, hedge funds and real property assets. The estimated fair value of alternative investments is based on valuations provided by the general partner or fund managers. The Health Trust reviews and evaluates the valuation methods and assumptions used in determining the fair value of the alternative investments. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the consolidated statement of activities in the period that such fluctuations occur. Gains and losses on investments are reported as increases or decreases in net assets with or without donor restrictions based on the nature of restrictions.

Fair value measurements

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

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

- *Level 1* - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- *Level 2* - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.
- *Level 3* - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date. Investments that are included in this category generally include privately held investments and partnership interests.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants receivable

Grants receivable primarily represent amounts awarded by governmental agencies that have not yet been received by the Organization. Grants receivable are stated at the amount management expects to collect from outstanding balances. The Organization utilizes the reserve method of accounting for doubtful accounts based on historical experience and management's evaluation of outstanding grants receivable at the end of each year. As of June 30, 2019 and 2018, the allowance for doubtful accounts was \$13,899 and \$0, respectively.

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, including rental properties.

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 valuations provided by real estate brokers and/or utilizing sales price in contracts for the properties. Changes in fair values are recognized in the consolidated 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 consolidated statement of activities.

Contributions

Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as with or without donor restrictions depending on the nature of donor restrictions. Restricted contributions are reported as increases in net assets with donor restrictions. When the restriction is met the amount is shown as a reclassification of net assets with donor restrictions to net assets without donor restrictions.

The Health Trust and Subsidiary
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions in-kind

Donated equipment, food and 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 9.

Grants to others

Grants to others are recognized when the unconditional promise to give is approved by the Board of Trustees and communicated to the grantee. 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. There were no conditional promises to give as of June 30, 2019 and 2018.

Allocation of functional expenses

The financial statements report certain categories of expenses that are attributed to more than one program or support functions of the Organization. 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. The expenses that are allocated include occupancy and depreciation, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, insurance, and other, which are allocated on the basis of estimates of time and effort.

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 23701d of the California Revenue Taxation Code. Any income from 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.

The Health Trust and Subsidiary
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

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, 2019 and 2018 was \$9,009 and \$45,002, respectively, and are included in other operating expenses on the consolidated statement of functional expenses.

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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

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, 2019 for potential recognition or disclosure in the consolidated financial statements. The Organization had subsequent events (see Note 16) that required recognition or disclosure in the consolidated financial statements for the year ended June 30, 2019. Subsequent events have been evaluated through December 20, 2019, which is the date the consolidated financial statements were available to be issued. The Organization has not evaluated subsequent events after December 20, 2019.

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Notes to Consolidated Financial Statements
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3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

	<u>2019</u>	<u>2018</u>
Marketable alternatives	\$ 27,441,093	\$ 26,371,430
Fixed income securities	25,144,569	24,068,652
Large cap value equities	16,897,504	18,941,359
International equities	16,588,480	16,197,308
All cap growth equities	6,498,973	7,269,716
Venture capital funds and limited partnerships	2,268,900	2,407,845
Small cap equities	<u>1,829,155</u>	<u>2,024,319</u>
	<u>\$ 96,668,674</u>	<u>\$ 97,280,629</u>

Capital commitments related to limited partnerships as of June 30, 2019 and 2018, were \$7,566,400. As of June 30, 2019, \$5,605,070 was already contributed. Remaining capital contributions to be called are \$1,961,330.

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.

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Notes to Consolidated Financial Statements
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3. 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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Marketable alternatives	\$ -	\$ -	\$ 27,441,093	\$ 27,441,093
Fixed income securities	25,144,429	140	-	25,144,569
Large cap value equities	16,897,504	-	-	16,897,504
International equities	16,588,480	-	-	16,588,480
All cap growth equities	6,498,973	-	-	6,498,973
Venture capital funds and limited partnerships	-	-	2,268,900	2,268,900
Small cap equities	<u>1,829,155</u>	<u>-</u>	<u>-</u>	<u>1,829,155</u>
	<u>\$ 66,958,541</u>	<u>\$ 140</u>	<u>\$ 29,709,993</u>	<u>\$ 96,668,674</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Marketable alternatives	\$ -	\$ -	\$ 26,371,430	\$ 26,371,430
Fixed income securities	24,068,502	150	-	24,068,652
Large cap value equities	18,941,359	-	-	18,941,359
International equities	16,197,308	-	-	16,197,308
All cap growth equities	7,269,716	-	-	7,269,716
Venture capital funds and limited partnerships	-	-	2,407,845	2,407,845
Small cap equities	<u>2,024,319</u>	<u>-</u>	<u>-</u>	<u>2,024,319</u>
	<u>\$ 68,501,204</u>	<u>\$ 150</u>	<u>\$ 28,779,275</u>	<u>\$ 97,280,629</u>

Investment earnings (losses) consisted of the following:

	<u>2019</u>	<u>2018</u>
Net realized and unrealized gain (loss) on investments	\$ (1,747,308)	\$ 2,772,618
Interest income	<u>5,975,653</u>	<u>4,423,486</u>
	4,228,345	7,196,104
Investment expense	<u>(487,179)</u>	<u>(451,063)</u>
	<u>\$ 3,741,166</u>	<u>\$ 6,745,041</u>

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3. INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

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

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 28,779,275	\$ 28,087,361
Net realized and unrealized gains	495,764	1,814,736
Investment management fees	(52,755)	(3,750)
Transfers in and out, net	(45,255)	-
Capital contributions	841,000	520,497
Proceeds from redemptions and distributions	<u>(308,036)</u>	<u>(1,639,569)</u>
Balance, end of year	<u><u>\$ 29,709,993</u></u>	<u><u>\$ 28,779,275</u></u>

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 2,350,000	\$ 2,350,000
Buildings	2,837,895	2,837,895
Leasehold improvements	801,104	801,104
Furniture and equipment	<u>1,201,782</u>	<u>1,212,444</u>
	7,190,781	7,201,443
Accumulated depreciation	<u>(2,809,144)</u>	<u>(2,654,053)</u>
	<u><u>\$ 4,381,637</u></u>	<u><u>\$ 4,547,390</u></u>

Total depreciation expense for the years ended June 30, 2019 and 2018 was \$182,431 and \$203,470, respectively. Depreciation expense allocated to rental properties for the years ended June 30, 2019 and 2018 was \$51,292 and \$0, respectively.

5. 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, 2019 and 2018. The Organization is currently under contract for the sale of Morgan Hill property (see Note 16).

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5. LAND AND BUILDING HELD FOR INVESTMENT (continued)

Land and building held for investment consisted of the following:

	<u>2019</u>	<u>2018</u>
Morgan Hill property	<u>\$ 7,500,000</u>	<u>\$ 7,500,000</u>

6. ENDOWMENT

The Organization's endowment of \$171,481 of June 30, 2019 and 2018, respectively, consists of individual donor-restricted endowment funds established for a variety of purposes. As required by U.S. 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 as of June 30, 2019 and 2018, 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 and Net Assets Without Donor Restriction (Note 7) in the amounts of \$98,040,863 and \$12,754,678 as of June 30, 2019 and \$98,842,413 and \$12,369,450 as of June 30, 2018.

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 net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. 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:

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6. ENDOWMENT (continued)

Interpretation of relevant law (continued)

- (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

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, 2019 and 2018, there were no deficiencies of this nature that are required to be reported in net assets without donor restrictions.

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 as determined by the Board of Trustees. For fiscal year 2019, the Board of Trustees set a target spending rate of 5.25% which was calculated from a 5-year moving average of quarterly market values on the investment assets. The Organization expects its investment assets, over time, to produce an average rate of return of approximately 7.25% annually, which is the spending rate plus an annual inflation rate of 2%. 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.

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6. ENDOWMENT (continued)

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2019 is as follows:

		<u>With Donor Restrictions</u>		
	<u>Without Donor</u>	<u>Subject to</u>	<u>Held in</u>	
	<u>Restrictions</u>	<u>Appropriation</u>	<u>Perpetuity</u>	<u>Total</u>
		<u>and Spending</u>		
		<u>Policy</u>		
Donor-restricted endowment funds	\$ -	\$ 93,959	\$ 171,481	\$ 265,440

Endowment net asset composition by type of fund as of June 30, 2018 is as follows:

		<u>With Donor Restrictions</u>		
	<u>Without Donor</u>	<u>Subject to</u>	<u>Held in</u>	
	<u>Restrictions</u>	<u>Appropriation</u>	<u>Perpetuity</u>	<u>Total</u>
		<u>and Spending</u>		
		<u>Policy</u>		
Donor-restricted endowment funds	\$ -	\$ 84,025	\$ 171,481	\$ 255,506

Changes in endowment net assets for the fiscal year ended June 30, 2019 is as follows:

		<u>With Donor Restrictions</u>		
	<u>Without Donor</u>	<u>Subject to</u>	<u>Held in</u>	
	<u>Restrictions</u>	<u>Appropriation</u>	<u>Perpetuity</u>	<u>Total</u>
		<u>and Spending</u>		
		<u>Policy</u>		
Balance, June 30, 2018	\$ -	\$ 84,025	\$ 171,481	\$ 255,506
Interest and dividends	-	16,213	-	16,213
Net realized and unrealized loss on investments	-	(4,960)	-	(4,960)
Investment fees	-	(1,319)	-	(1,319)
Balance, June 30, 2019	\$ -	\$ 93,959	\$ 171,481	\$ 265,440

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6. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2018 is as follows:

			With Donor Restrictions		
		Without Donor	Subject to	Held in	Total
		Restrictions	Appropriation	Perpetuity	
			and Spending		
			Policy		
Balance, June 30, 2017	\$	-	\$ 67,382	\$ 171,481	\$ 238,863
Interest and dividends		-	11,653	-	11,653
Net realized and					
unrealized gain on					
investments		-	6,413	-	6,413
Investment fees		-	(1,423)	-	(1,423)
Balance, June 30, 2018	\$	-	\$ 84,025	\$ 171,481	\$ 255,506

7. DESIGNATED NET ASSETS

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

The board-designated fund of \$98,040,863 and \$98,842,413 as of June 30, 2019 and 2018, respectively, 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 board-designated fund of \$230,359 and \$206,077 as of June 30, 2019 and 2018, respectively, is reserved for the Organization's HIV/AIDS Services and Meals on Wheels programs.

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 \$12,754,678 and \$12,369,450 as of June 30, 2019 and 2018, respectively.

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8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	2019	2018
AIDS services	\$ 497,441	\$ 323,968
Meals on Wheels	384,773	527,226
Other purposes	358,558	345,247
Community Health Promotion	261,879	40,119
Held in perpetuity	171,481	171,481
Children's Dental Services	130,900	130,900
Behavioral Health Contractors Association	97,015	85,371
Endowment earnings (subject to appropriation and spending policy)	93,959	84,025
Natalie Fund	22,183	22,183
Healthy Eating	16,504	160,497
Healthy Living	-	11,000
Healthy Aging	-	1,270
	<u>\$ 2,034,693</u>	<u>\$ 1,903,287</u>

Net assets with donor restrictions released from restriction during the year were as follows:

	2019	2018
Meals on Wheels	\$ 668,787	\$ 639,819
Community Health Promotion	527,058	309,256
AIDS services	171,479	127,935
Healthy Eating	143,993	70,949
Behavioral Health Contractors Association	111,111	104,387
Other purposes	19,968	19,610
Healthy Living	11,000	10
Children's Dental Services	5,000	407,839
Healthy Aging	1,270	25,025
Destination: Home	-	2,920,513
	<u>\$ 1,659,666</u>	<u>\$ 4,625,343</u>

9. CONTRIBUTIONS IN-KIND

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

The Health Trust and Subsidiary
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9. CONTRIBUTIONS IN-KIND (continued)

Contributions in-kind consisted of the following:

	2019	2018
Food and supplies	\$ 1,043,147	\$ 838,447
Building and equipment rental	242,847	252,777
	1,285,994	1,091,224
Special events: In-kind revenue	1,461	-
	<u>\$ 1,287,455</u>	<u>\$ 1,091,224</u>

Volunteers also donated 22,368 and 22,074 hours of non-professional services for the years ended June 30, 2019 and 2018, respectively. Management has estimated the value of these services to be \$568,818 and \$532,866. Since these services did not require specialized skills, they have not been recorded as support and expenses in the consolidated financial statements.

10. COMMITMENTS AND CONTINGENCIES

Contracts

The Organization's grants and contracts are subject to inspection and audit by the funding governmental 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.

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.

11. OPERATING LEASE COMMITMENTS

The Organization leases facilities and equipment under operating lease agreements which require monthly payments ranging from \$2,500 to \$11,562 per month and expiring at various dates through June 2026.

The Health Trust and Subsidiary
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11. OPERATING LEASE COMMITMENTS (continued)

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

<u>Year ending June 30,</u>	
2020	\$ 264,581
2021	272,357
2022	245,914
2023	132,668
2024	96,416
Thereafter	<u>201,596</u>
	<u><u>\$ 1,213,532</u></u>

Rental expense, including in-kind rent, for the years ended June 30, 2019 and 2018 was \$692,964 and \$659,439, respectively. Rental expense allocated to rental properties for the years ended June 30, 2019 and 2018 was \$51,293 and \$0, respectively.

12. BUILDING RENTAL INCOME

The Organization leases a portion of its office building to various entities. The leases expire on various dates through December 2020. 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>	
2020	<u>\$ 171,653</u>
	<u><u>\$ 171,653</u></u>

Rental income for the years ended June 30, 2019 and 2018 was \$439,690 and \$343,834 respectively.

13. 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, 2019 and 2018, contributions to the 401(a) plan were \$32,067 and \$88,134, respectively.

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13. 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, 2019 and 2018, employer contributions to the 403(b) plan were \$120,673 and \$129,916, 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 100% of an employee's first 3% of 401(k) contributions and 50% of the next 2% for a maximum match of 4% (if the employee contributes 5% or more). For the years ended June 30, 2019 and 2018, employer contributions to the 401(k) plan were \$150,248 and \$127,413, 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, 2019 and 2018, The Health Trust did not make any contributions to the 457(f) plan.

14. 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.

15. LIQUIDITY

As part of the Organization's liquidity management it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Long-term investments include endowment funds consisting of donor-restricted endowments. Income from donor-restricted endowments is restricted until appropriated in accordance with the California version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, therefore, is not available for general expenditure until appropriated. As described in Note 6, the endowment has a spending rate up to 7%. For the year ending June 30, 2020, the Board of Trustees has approved a spending rate of 5%. Appropriations totaling \$4,792,566 from the Organization's investments are planned to be available within the next 12 months.

Short-term grants and contributions receivable consists of grants and pledges receivable expected to be received within one year from June 30, 2019. Unrestricted short-term grants and contributions receivable will be available to support general operations of the Organization.

The Health Trust and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

15. LIQUIDITY (continued)

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 2019 to fund general expenditures and other obligations when they become due:

Financial assets:	
Cash and cash equivalents	\$ 1,057,444
Restricted cash	126,459
Investments	96,497,193
Grants receivable	5,897,555
Contributions receivable	373,365
Investments - donor restricted endowment	171,481
	<u>104,123,497</u>
Less: amounts unavailable for general expenditure within one year:	
Board designated for medically related services (excluding \$4,792,566 of planned appropriation)	(93,248,297)
Board designated for programs	(230,359)
Net assets restricted for a specified purpose	(1,769,253)
Unappropriated earnings on endowment	(93,959)
Endowment investments held in perpetuity	(171,481)
	<u>(95,513,349)</u>
	<u>\$ 8,610,148</u>

16. SUBSEQUENT EVENTS

Land and Building Held for Investment - The Organization is currently under contract for the sale of its Morgan Hill property.

Commitments - In 2017, the Board of Trustees approved a grant allocation in the amount of \$300,000 to the County of Santa Clara. The County applied for Phase II of Whole Person Care (WPC) funding from the Department of Health Care Services and The Health Trust Board committed \$300,000 for purchase of goods and services for older adults, not covered by the health plans during the three-year lifespan of WPC. The intent was for the County to re-grant the funds to the identified community service provider. Upon the Board commitment, staff was delegated to work with the County and secure a full proposal, in order to execute the contract. As of July 2019, a full proposal was not submitted to The Health Trust and because the WPC project is scheduled to end in December 2020, the intent of the grant to pay for the lifespan of the WPC project would not be fulfilled. As a result, in July 2019, staff informed the County that the Organization was recommending canceling the commitment for the WPC project.

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, 2019, 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 20, 2019.

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 20, 2019

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, 2019. 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 United States; 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, 2019.

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 20, 2019

The Health Trust and Subsidiary
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

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	\$ 9,605
City of San Jose	14.218	CPS-17-002A	<u>125,000</u>
Total Community Development Block Grants/Entitlement Grants			<u>134,605</u>
 Housing Opportunities for Persons With AIDS			
Pass-through program from:			
City of San Jose	14.241	HOP-16-003	965,272
City of San Jose	14.241	HPSH-16-001	410,843
City of San Jose	14.241	HVAW-16-001	<u>150,541</u>
Total Housing Opportunities for Persons With AIDS			<u>1,526,656</u>
 Home Investment Partnerships Program			
Pass-through program from:			
City of San Jose	14.239	HOME-17-001	<u>500,824</u>
 Continuum of Care Program			
Pass-through program from:			
County of Santa Clara	14.267	430014511	<u>426,972</u>
 Total U.S. Department of Housing and Urban Development			<u>2,589,057</u>
U.S. Department of Agriculture			
Food Assistance Program			
Pass-through program from:			
State of California Department of Social Services Emergency Food Assistance Program (Food Commodities)	10.569	N/A	<u>137,843</u>

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

The Health Trust and Subsidiary
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. Department of Health and Human Services			
Sourcewise			
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	\$ 127,265
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	20170402.00	121,332
Nutrition Services Incentive Program	93.053	20170402.00	13,969
Total Sourcewise			<u>262,566</u>
HIV Emergency Relief Project Grants			
Pass-through program from:			
County of Santa Clara	93.914	N/A	<u>1,621,042</u>
HIV Care Formula Grants			
Pass-through program from:			
California Department of Public Health Office of AIDS	93.917	17-10776	<u>795,426</u>
Total U.S. Department of Health and Human Services			<u>2,679,034</u>
U.S. Department of Homeland Security			
Emergency Food and Shelter National Board Program	97.024	N/A	<u>13,242</u>
Total Expenditures of Federal Awards			<u>\$ 5,419,176</u>

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

The Health Trust and Subsidiary
Notes to Schedule of Expenditures of Federal Awards
June 30, 2019

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, 2019. 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 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 and Subsidiary
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

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 Project Grants	93.914
HIV Care Formula Grants	93.917
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

The Health Trust and Subsidiary
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

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.

The Health Trust and Subsidiary
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2019

There were no prior year findings.