

## **The Health Trust and Subsidiary**

Consolidated Financial Statements  
and Single Audit Reports and Schedules

June 30, 2020  
(With Comparative Totals for 2019)



## 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 - 28
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>	30 - 31
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	32 - 33
Schedule of Expenditures of Federal Awards	34 - 35
Notes to Schedule of Expenditures of Federal Awards	36
Schedule of Findings and Questioned Costs	37 - 38
Summary Schedule of Prior Audit Findings	39

## 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, 2020, 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, 2020, 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 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to that matter.

### **Emphasis of Matter**

As described in Note 11 of the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. However, the ultimate financial impact and duration of these events cannot be reasonably estimated at this time. 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 30, 2020, 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 2019 consolidated financial statements, and our report dated December 20, 2019 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, 2019, 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 30, 2020

The Health Trust and Subsidiary  
Consolidated Statement of Financial Position  
June 30, 2020  
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,725,524	\$ 1,057,444
Restricted cash	141,266	126,459
Investments	93,608,647	96,497,193
Grants receivable, net	4,796,054	5,897,555
Contributions receivable	128,585	373,365
Prepaid expenses and other current assets	331,170	271,753
Total current assets	<u>102,731,246</u>	<u>104,223,769</u>
Noncurrent assets		
Land and building held for investment	7,500,000	7,500,000
Property and equipment, net	4,436,955	4,381,637
Investments - donor restricted endowment	171,481	171,481
Total noncurrent assets	<u>12,108,436</u>	<u>12,053,118</u>
Total assets	<u>\$ 114,839,682</u>	<u>\$ 116,276,887</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 453,973	\$ 391,049
Accrued payroll and related liabilities	1,180,212	1,026,619
Other accrued expenses	239,599	125,237
Grants payable	-	1,623,389
Deferred revenue	200,000	50,000
Paycheck Protection Program forgivable loans	1,837,800	-
Total current liabilities	<u>3,911,584</u>	<u>3,216,294</u>
Net assets		
Without donor restrictions		
Designated for medically related services	94,912,318	98,040,863
Designated for programs	234,452	230,359
Undesignated	12,737,008	12,754,678
Total without donor restrictions	<u>107,883,778</u>	<u>111,025,900</u>
With donor restrictions		
Restricted for specified purposes	2,777,206	1,769,253
Subject to appropriation and spending policy	95,633	93,959
Held in perpetuity	171,481	171,481
Total with donor restrictions	<u>3,044,320</u>	<u>2,034,693</u>
Total net assets	<u>110,928,098</u>	<u>113,060,593</u>
Total liabilities and net assets	<u>\$ 114,839,682</u>	<u>\$ 116,276,887</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, 2020  
(With Comparative Totals for 2019)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2020 Total</u>	<u>2019 Total</u>
Support and revenue				
Support				
Government grants	\$ 14,738,390	\$ 394,050	\$ 15,132,440	\$ 11,461,462
Contributions	383,059	2,455,051	2,838,110	1,739,346
Contributions in-kind	1,221,361	-	1,221,361	1,285,994
Special events, net of expenses of \$562 and \$10,972 for the years ended June 30, 2020 and 2019, respectively	<u>64,988</u>	<u>-</u>	<u>64,988</u>	<u>151,265</u>
Total support	<u>16,407,798</u>	<u>2,849,101</u>	<u>19,256,899</u>	<u>14,638,067</u>
Revenue				
Fees for financial administrative support services	3,488,409	-	3,488,409	3,004,804
Fee for other services	578,078	-	578,078	466,488
Investment income, net	568,054	2,271	570,325	3,741,166
Rental income	229,785	-	229,785	439,690
Net assets released from restriction	<u>1,841,745</u>	<u>(1,841,745)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>6,706,071</u>	<u>(1,839,474)</u>	<u>4,866,597</u>	<u>7,652,148</u>
Total support and revenue	<u>23,113,869</u>	<u>1,009,627</u>	<u>24,123,496</u>	<u>22,290,215</u>
Functional expenses				
Program services	19,540,170	-	19,540,170	16,228,882
Management and general	2,498,819	-	2,498,819	2,599,361
Fundraising	612,914	-	612,914	662,787
Financial administrative support services	<u>3,604,088</u>	<u>-</u>	<u>3,604,088</u>	<u>3,059,819</u>
Total functional expenses	<u>26,255,991</u>	<u>-</u>	<u>26,255,991</u>	<u>22,550,849</u>
Change in net assets	(3,142,122)	1,009,627	(2,132,495)	(260,634)
Net assets, beginning of year	<u>111,025,900</u>	<u>2,034,693</u>	<u>113,060,593</u>	<u>113,321,227</u>
Net assets, end of year	<u>\$ 107,883,778</u>	<u>\$ 3,044,320</u>	<u>\$ 110,928,098</u>	<u>\$ 113,060,593</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, 2020  
(With Comparative Totals for 2019)

	Program Services					Support Services			Financial		
	Chronic Disease Services								Administrative		
	Community Health Promotion	HIV/AIDS Services	Housing Services	Food & Nutrition Services	Total Program Services	Management and General	Fundraising	Total Support Services	Support Services	2020 Total	2019 Total
Grants to others	\$ 387,434	\$ 324,997	\$ 237,303	\$ 692,608	\$ 1,642,342	\$ -	\$ -	\$ -	\$ -	\$ 1,642,342	\$ 1,724,813
Salaries and related expenses											
Salaries and wages	443,919	1,194,457	2,119,155	1,032,665	4,790,196	729,847	331,077	1,060,924	2,596,447	8,447,567	7,894,162
Employee benefits	142,605	375,218	613,782	309,533	1,441,138	191,479	92,506	283,985	807,105	2,532,228	2,291,818
Payroll taxes	36,773	99,600	173,161	84,598	394,132	50,043	26,292	76,335	218,619	689,086	666,931
Total salaries and related expenses	623,297	1,669,275	2,906,098	1,426,796	6,625,466	971,369	449,875	1,421,244	3,622,171	11,668,881	10,852,911
Other expenses											
Purchased services	158,194	98,052	6,513,234	2,083,083	8,852,563	114,478	24,122	138,600	173,940	9,165,103	6,372,257
Supplies	221,228	25,134	40,859	1,013,703	1,300,924	93,998	61,747	155,745	37,377	1,494,046	1,486,166
Building and equipment rental	31,946	55,915	292,714	67,916	448,491	12,077	1,822	13,899	157,802	620,192	641,671
Legal and professional fees	8,468	1,004	93,023	8,951	111,446	321,995	24,669	346,664	2,274	460,834	215,485
Other operating expenses	19,185	18,617	79,475	102,850	220,127	82,763	14,742	97,505	100,245	417,427	453,151
Utilities	22,411	22,997	48,334	50,335	144,077	48,336	5,000	53,336	27,372	224,785	134,144
Expenses related to rental properties	-	-	-	-	-	175,905	-	175,905	-	175,905	263,363
Depreciation	8,823	11,802	6,356	51,214	78,195	27,568	8,956	36,524	22,041	136,760	143,663
Building expense	18,451	5,132	6,827	27,116	57,526	51,352	18,478	69,830	-	127,356	138,159
Insurance	7,267	10,435	20,682	20,629	59,013	50,008	3,503	53,511	9,836	122,360	125,066
Total other expenses	495,973	249,088	7,101,504	3,425,797	11,272,362	978,480	163,039	1,141,519	530,887	12,944,768	9,973,125
Total functional expenses before reclassification	1,506,704	2,243,360	10,244,905	5,545,201	19,540,170	1,949,849	612,914	2,562,763	4,153,058	26,255,991	22,550,849
FASS expenses allocated	-	-	-	-	-	548,970	-	548,970	(548,970)	-	-
Total functional expenses	<u>\$ 1,506,704</u>	<u>\$ 2,243,360</u>	<u>\$ 10,244,905</u>	<u>\$ 5,545,201</u>	<u>\$ 19,540,170</u>	<u>\$ 2,498,819</u>	<u>\$ 612,914</u>	<u>\$ 3,111,733</u>	<u>\$ 3,604,088</u>	<u>\$ 26,255,991</u>	<u>\$ 22,550,849</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, 2020  
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ (2,132,495)	\$ (260,634)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	188,424	182,431
Net unrealized losses on investments	4,522,257	2,264,517
Net realized gain on investments	(830,790)	(517,209)
Loss on disposal of property and equipment	-	6,155
Changes in operating assets and liabilities		
Grants receivable	1,101,501	(821,862)
Contributions receivable	244,780	(271,633)
Prepaid expenses and other current assets	(59,417)	(9,184)
Accounts payable	62,924	(16,871)
Accrued payroll and related liabilities	153,593	(307,579)
Other accrued expenses	114,362	51,275
Due to Destination: Home SV	-	(668,348)
Grants payable	(1,623,389)	339,891
Deferred revenue	150,000	50,000
Net cash provided by operating activities	<u>1,891,750</u>	<u>20,949</u>
Cash flows from investing activities		
Purchases of investments	(20,496,443)	(10,594,733)
Proceeds from sale and maturity of investments	19,693,522	9,459,380
Purchases of property and equipment	(243,742)	(22,833)
Proceeds from restricted investments	-	52,448
Net cash used in investing activities	<u>(1,046,663)</u>	<u>(1,105,738)</u>
Cash flows from financing activities		
Proceeds from Paycheck Protection Program forgivable loans	<u>1,837,800</u>	<u>-</u>
Net cash provided by financing activities	<u>1,837,800</u>	<u>-</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	2,682,887	(1,084,789)
Cash, cash equivalents and restricted cash, beginning of year	<u>1,183,903</u>	<u>2,268,692</u>
Cash, cash equivalents and restricted cash, end of year	<u><u>\$ 3,866,790</u></u>	<u><u>\$ 1,183,903</u></u>
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 3,725,524	\$ 1,057,444
Restricted cash	<u>141,266</u>	<u>126,459</u>
	<u><u>\$ 3,866,790</u></u>	<u><u>\$ 1,183,903</u></u>

Supplemental disclosure of cash flow information

Cash paid during the year for income taxes	\$ 585	\$ 1,795
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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, 2020  
(With Comparative Totals for 2019)

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 the 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.

THT 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.

In response to the COVID-19 pandemic, The Health Trust announced a COVID-19 Relief Fund of \$723,000 to provide general operating support to its nonprofit grantees delivering essential health-related services to the community.

Provider

As a provider, The Health Trust provides direct services to vulnerable community members. The Health Trust offers a variety of services - in its focus areas of chronic disease, food, and housing - aimed at improving the health and wellbeing of vulnerable populations in Santa Clara and Northern San Benito counties.

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

1. NATURE OF OPERATIONS (continued)

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

- *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 1,800 children and adults enroll in public health insurance programs each year, leads evidence based chronic disease self-management and falls prevention classes for 500 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 124 clients served by THT in this program received over 18,000 meals and over 220 Registered Dietitian sessions.
- *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 March of 2020, THT's Meals on Wheels program quickly expanded to address food insecurity and community needs as a result of the COVID-19 pandemic. To meet the increase in demand for meals, THT shifted to the weekly delivery of frozen meals. In Fiscal Year 2020, THT provided over 195,000 meals and over 100,000 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 3,500 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 565,000 pounds of food donated by Second Harvest of Silicon Valley to its clients receiving Chronic Disease and Housing services.

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

1. NATURE OF OPERATIONS (continued)

- *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.
- *Produce Mobile at Tropicana* - in partnership with Second Harvest of Silicon Valley, every first Wednesday of the month fresh produce and USDA food items are distributed to community members at the Tropicana Shopping Center in East San Jose. Approximately 122,000 pounds of food is distributed to the community and serves 2,000 households per year.
- *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 177 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 1,200 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 is Medicine* - The Health Trust participates actively in the California Food is Medicine Coalition, a consortium of six nonprofits throughout the state who seek to develop, refine, and sustain models where medical nutrition services are an integral part of cost-effective and high quality health care. By making medically tailored nutrition and food central to its healthcare system, The Health Trust can produce better health outcomes, lower the cost of care and improve patient satisfaction.

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

1. NATURE OF OPERATIONS (continued)

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 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.

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 8).
- *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.

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-08, Not-For-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the criteria for evaluating whether a transaction is a contribution or an exchange transaction and whether a contribution is conditional or unconditional.

The Organization adopted ASU 2018-08 with a date of the initial application of July 1, 2019 using the modified prospective method. The adoption of ASU 2018-08 did not have a significant impact on the Organization's financial position, result of operations, or cash flows. The Organization has evaluated contributions received and contributions made and has determined that there is no significant change as a result of the adoption of the standard.

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.

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

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.

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

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, 2020 and 2019, the allowance for doubtful accounts was \$10,593 and \$13,899, 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 the 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. The Organization will not recognize a conditional promise to give until the conditions on which the promise depends are substantially met. A promise that calls for specific outcomes to be achieved will be treated as a conditional promise to give. Contributions are recorded as with or without donor restrictions depending on the nature of donor restrictions. For contributions with donor restrictions, funds 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.

Contributions that are considered conditional promises to give which contain barriers and a right of return or right of release are not recognized until the conditions on which they depend are met, at which time, the gift is recognized as grants or contributions support with or without donor restrictions.

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions (continued)

The Organization receives a significant amount of government grants through reimbursement from local, state and federally funded programs. The support generated from these programs is recorded as government grants in the consolidated statement of activities. These government grants meet the criteria to be classified as conditional contributions under U.S. GAAP revenue recognition for nonprofit organizations as they contain barriers related to incurrence of qualifying expenditures and a right of return or release. The Organization has elected a simultaneous release option to account for these grants. Therefore, they are recorded as government support without donor restrictions upon satisfaction of the barriers. In the event amounts are received and have not been earned, the Organization records such amounts as refundable advance until earned.

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 10.

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, 2020 and 2019. Total grants to others was \$1,642,342 and \$1,724,813 for the years ended June 30, 2020 and 2019, respectively.

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.



The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2020 and 2019 was \$2,125 and \$9,009, 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, 2019, 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.

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

Management of the Organization has evaluated events and transactions subsequent to June 30, 2020 for potential recognition or disclosure in the consolidated financial statements. The Organization had subsequent events that required recognition or disclosure in the consolidated financial statements for the year ended June 30, 2020 (see Note 19). Subsequent events have been evaluated through December 30, 2020, which is the date the consolidated financial statements were available to be issued.

3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

	<u>2020</u>	<u>2019</u>
Fixed income securities	\$ 25,944,170	\$ 25,144,569
Marketable alternatives	22,474,240	27,441,093
Large cap value equities	17,382,390	16,897,504
International equities	17,346,532	16,588,480
All cap growth equities	6,901,711	6,498,973
Venture capital funds and limited partnerships	1,860,643	2,268,900
Small cap equities	<u>1,870,442</u>	<u>1,829,155</u>
	<u>\$ 93,780,128</u>	<u>\$ 96,668,674</u>

Capital commitments related to limited partnerships as of June 30, 2020 and 2019, were \$7,566,400. As of June 30, 2020, \$6,205,829 was already contributed. Remaining capital contributions to be called are \$1,360,571.

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

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

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

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, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Fixed income securities	\$ 25,944,040	\$ 130	\$ -	\$ 25,944,170
Marketable alternatives	-	-	22,474,240	22,474,240
Large cap value equities	17,382,390	-	-	17,382,390
International equities	17,346,532	-	-	17,346,532
All cap growth equities	6,901,711	-	-	6,901,711
Venture capital funds and limited partnerships	-	-	1,860,643	1,860,643
Small cap equities	<u>1,870,442</u>	<u>-</u>	<u>-</u>	<u>1,870,442</u>
	<u>\$ 69,445,115</u>	<u>\$ 130</u>	<u>\$ 24,334,883</u>	<u>\$ 93,780,128</u>

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>

Investment earnings (losses) consisted of the following:

	<u>2020</u>	<u>2019</u>
Net realized and unrealized losses on investments	\$ (3,691,467)	\$ (1,747,308)
Interest income	<u>4,678,359</u>	<u>5,975,653</u>
	986,892	4,228,345
Investment expense	<u>(416,567)</u>	<u>(487,179)</u>
	<u>\$ 570,325</u>	<u>\$ 3,741,166</u>

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

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>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 29,709,993	\$ 28,779,275
Net realized and unrealized gains (losses)	(1,980,903)	495,764
Investment management fees	(7,500)	(52,755)
Transfers in and out, net	-	(45,255)
Capital contributions	685,102	841,000
Proceeds from redemptions and distributions	<u>(4,071,809)</u>	<u>(308,036)</u>
Balance, end of year	<u><u>\$ 24,334,883</u></u>	<u><u>\$ 29,709,993</u></u>

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>2020</u>	<u>2019</u>
Buildings	\$ 2,837,895	\$ 2,837,895
Land	2,350,000	2,350,000
Furniture and equipment	949,206	1,201,782
Leasehold improvements	<u>915,617</u>	<u>801,104</u>
	7,052,718	7,190,781
Accumulated depreciation	<u>(2,615,763)</u>	<u>(2,809,144)</u>
	<u><u>\$ 4,436,955</u></u>	<u><u>\$ 4,381,637</u></u>

Total depreciation expense for the years ended June 30, 2020 and 2019 was \$188,424 and \$182,431, respectively. Depreciation expense allocated to rental properties for the years ended June 30, 2020 and 2019 was \$51,664 and \$51,292, 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, 2020 and 2019. The Organization is currently under contract for the sale of Morgan Hill property (see Note 19).

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

5. LAND AND BUILDING HELD FOR INVESTMENT (continued)

Land and building held for investment consisted of the following:

	<u>2020</u>	<u>2019</u>
Morgan Hill property	<u>\$ 7,500,000</u>	<u>\$ 7,500,000</u>

6. PAYCHECK PROTECTION PROGRAM FORGIVABLE LOANS

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act commonly referred to as the "CARES Act". One component of the CARES Act was the Paycheck Protection Program ("PPP") which provides small businesses with the resources needed to maintain their payroll and cover applicable overhead. The PPP is implemented by the Small Business Administration ("SBA") with support from the Department of the Treasury. The PPP provides funds to pay up to 24 weeks of payroll costs including benefits. Funds can also be used to pay interest on mortgages, rent, and utilities.

On April 7, 2020, The Health Trust qualified for and received a loan pursuant to the PPP from a qualified lender (the "PPP lender"), for an aggregate principal amount of \$1,314,500. The loan is a five-year loan with a maturity date of April 7, 2025. On April 13, 2020, FASS qualified for and received a loan pursuant to the PPP from a qualified lender (the "PPP lender"), for an aggregate principal amount of \$523,300. Both loans are five-year loans with a maturity date of April 7, 2025 and April 13, 2025, respectively. Both loans bear an annual interest rate of 1%. The loans shall be payable monthly with the first ten monthly payments deferred. It is The Health Trust and FASS's intent to apply for loan forgiveness under the provision of Section 1106 of the CARES Act. Loan forgiveness is subject to the sole approval of the SBA. The Health Trust and FASS are eligible for loan forgiveness in an amount equal to payments made during ten month period beginning on the loan date, with the exception that no more than 40% of the amount of loan forgiveness may be for expenses other than payroll expenses. The Health Trust and FASS used all loan proceeds to partially subsidize direct payroll and other permitted expenses. The Health Trust and FASS plans to submit its forgiveness application during the year ending June 30, 2021. The loans will be recognized as income in the consolidated statement of activities in the period The Health Trust and FASS receives formal approval of forgiveness.

7. ENDOWMENT

The Organization's endowment of \$171,481 of June 30, 2020 and 2019, 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.

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

7. ENDOWMENT (continued)

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, 2020 and 2019, 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 Restrictions (Note 8) in the amounts of \$94,912,318 and \$12,737,008 as of June 30, 2020 and \$98,040,863 and \$12,754,678 as of June 30, 2019.

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:

- (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 the United States Generally Accepted Accounting Principles (U.S. GAAP), as of June 30, 2020 and 2019, there were no deficiencies of this nature that are required to be reported in net assets without donor restrictions.

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

7. ENDOWMENT (continued)

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. The Board of Trustees set a target spending rate of 5% 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% 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.

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2020 is as follows:

		<u>With Donor Restrictions</u>		
	Without Donor	Subject to	Held in	
	Restrictions	Appropriation	Perpetuity	Total
		and Spending		
		Policy		
Donor-restricted				
endowment funds	\$ -	\$ 95,633	\$ 171,481	\$ 267,114

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

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

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

7. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2020 is as follows:

		Without Donor Restrictions	With Donor Restrictions Subject to Appropriation and Spending Policy	Held in Perpetuity	Total
Balance, June 30, 2019	\$	-	\$ 93,959	\$ 171,481	\$ 265,440
Interest and dividends		-	13,227	-	13,227
Net realized and unrealized losses on investments		-	(10,404)	-	(10,404)
Investment fees		-	(1,149)	-	(1,149)
Balance, June 30, 2020	\$	-	\$ 95,633	\$ 171,481	\$ 267,114

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

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



The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

8. 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 \$94,912,318 and \$98,040,863 as of June 30, 2020 and 2019, 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 \$234,452 and \$230,359 as of June 30, 2020 and 2019, 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 \$12,737,008 and \$12,754,678 as of June 30, 2020 and 2019, respectively.

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	2020	2019
Meals on Wheels	\$ 1,052,645	\$ 306,729
Community Health Promotion	492,415	261,879
Other purposes	329,861	358,557
AIDS services	289,638	497,441
Food & Nutrition Services	208,187	94,549
Children's Dental Services	180,900	130,900
Held in perpetuity	171,481	171,481
Behavioral Health Contractors Association	112,390	97,015
Endowment earnings (subject to appropriation and spending policy)	95,633	93,959
COVID Relief Fund	88,987	-
Natalie Fund	22,183	22,183
	<u>\$ 3,044,320</u>	<u>\$ 2,034,693</u>

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

9. NET ASSETS WITH DONOR RESTRICTIONS (continued)

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

	<u>2020</u>	<u>2019</u>
Meals on Wheels	\$ 664,766	\$ 668,787
Community Health Promotion	424,497	527,058
AIDS services	267,255	171,479
Other purposes	165,999	32,238
Food & Nutrition Services	142,105	143,993
Behavioral Health Contractors Association	120,238	111,111
COVID Relief Fund	56,885	-
Children's Dental Services	<u>-</u>	<u>5,000</u>
	<u><u>\$ 1,841,745</u></u>	<u><u>\$ 1,659,666</u></u>

10. CONTRIBUTIONS IN-KIND

The estimated fair value of donated food and supplies, rent and property and equipment are recorded as contributions.

Contributions in-kind consisted of the following:

	<u>2020</u>	<u>2019</u>
Food and supplies	\$ 1,008,218	\$ 1,043,147
Building and equipment rental	208,588	242,847
Donated property and equipment	<u>4,555</u>	<u>-</u>
	1,221,361	1,285,994
Special events: In-kind support	<u>-</u>	<u>1,461</u>
	<u><u>\$ 1,221,361</u></u>	<u><u>\$ 1,287,455</u></u>

Volunteers also donated 14,282 and 22,368 hours of non-professional services for the years ended June 30, 2020 and 2019, respectively. Management has estimated the value of these services to be \$388,470 and \$568,818. 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, 2020  
(With Comparative Totals for 2019)

11. 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.

COVID-19 impact

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders.

During the COVID-19 pandemic, the services the Organization have generally been considered essential in nature and have not been materially interrupted. As the situation continues to evolve, the Organization is closely monitoring the impact of the COVID-19 pandemic on all aspects of its business, including how it impacts its program participants, contractors and sub-contractors, suppliers, vendors and employees, in addition to how the COVID-19 pandemic impacts its ability to provide services to its program participants. The Organization believes the ultimate impact of the COVID-19 pandemic on its operating results, cash flows and financial condition is likely to be determined by factors which are uncertain, unpredictable and outside of its control. The situation surrounding COVID-19 remains fluid, and if disruptions do arise, they could materially adversely impact the business of the Organization.

12. 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  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

12. OPERATING LEASE COMMITMENTS (continued)

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

<u>Year ending June 30,</u>	
2021	\$ 272,357
2022	245,914
2023	132,668
2024	96,416
2025	99,309
Thereafter	<u>102,288</u>
	<u>\$ 948,952</u>

Rental expense, including in-kind rent, for the years ended June 30, 2020 and 2019 was \$623,693 and \$692,964, respectively. Rental expense allocated to rental properties for the years ended June 30, 2020 and 2019 was \$12,908 and \$51,293, respectively.

13. BUILDING RENTAL INCOME

The Organization leases a portion of its office building to various entities. The leases expire on various dates through December 2020. Subsequent to year end the Organization entered into new lease agreements for lease terms expiring through August 2023. The Organization is responsible for all operating and maintenance expenses and other costs of ownership of the facility.

Rental income for the years ended June 30, 2020 and 2019 was \$229,785 and \$439,690 respectively.

14. CONDITIONAL GOVERNMENT GRANTS

Conditional government grants are recognized when the Organization meets the terms of the conditions in the grant agreement.

The conditional government grants are detailed as follows:

Incurring qualifying expenses for various federal, state and local grants	\$ 8,230,456
Incurring qualifying costs for forgiveness of the PPP loans	<u>1,837,800</u>
	<u>\$ 10,068,256</u>

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

15. CONDITIONAL CONTRIBUTIONS

Conditional contributions are recognized when the Organization meets the terms of the conditions in the grant agreement.

The conditional contribution is detailed as follows:

Incurring specific output and meeting requirements of the challenge grant	<u>\$ 105,000</u>
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16. 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, 2020 and 2019, contributions to the 401(a) plan were \$118,025 and \$32,067, respectively.
- *403(b) Plan* - Under the 403(b) plan, eligible employees may contribute a percentage of their compensation as defined in the plan agreements in accordance with Internal Revenue Service regulations. In general, The Health Trust matches 50% of an employee's contribution up to 6% of an employee's salary. For the years ended June 30, 2020 and 2019, employer contributions to the 403(b) plan were \$129,132 and \$120,673, 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, 2020 and 2019, employer contributions to the 401(k) plan were \$181,185 and \$150,248, 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, 2020 and 2019, The Health Trust did not make any contributions to the 457(f) plan.

17. 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, Directors and Officers annually review and acknowledge the Policy, which provides clear guidance and procedures to Trustees, Directors and Officers regarding the identification, disclosure, management, and resolution of real or perceived conflicts of interest.

The Health Trust and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

18. 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 7, the endowment has a spending rate up to 7%. For the year ending June 30, 2021, the Board of Trustees has approved a spending rate of 5%. Appropriations totaling \$5,802,518 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 contributions receivable expected to be received within one year from June 30, 2020. Unrestricted short-term grants and contributions receivable will be available to support general operations of the Organization.

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 2020 to fund general expenditures and other obligations when they become due:

Financial assets:	
Cash and cash equivalents	\$ 3,725,524
Restricted cash	141,266
Investments	93,608,647
Grants receivable	4,796,054
Contributions receivable	128,585
Investments - donor restricted endowment	171,481
	<u>102,571,557</u>
Less: amounts unavailable for general expenditure within one year:	
Board designated for medically related services (excluding \$5,802,518 of planned appropriation)	(89,109,800)
Board designated for programs	(234,452)
Net assets restricted for specified purposes	(2,777,206)
Unappropriated earnings on endowment	(95,633)
Endowment investments held in perpetuity	(171,481)
	<u>(92,388,572)</u>
	<u>\$ 10,182,985</u>

19. SUBSEQUENT EVENTS

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

## 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, 2020, 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 30, 2020.

### 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 stylized, with the first letters of "Armanino" and "LLP" being prominent.

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

December 30, 2020

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, 2020. 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, 2020.

## 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 30, 2020

The Health Trust and Subsidiary  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2020

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	\$ 16,000
City of San Jose	14.218	CPS-17-002	125,000
City of San Jose Pass through from Loaves & Fishes Family Kitchen	14.218	CPS-19-001	<u>600,000</u>
Total Community Development Block Grants/Entitlement Grants			<u>741,000</u>
Housing Opportunities for Persons With AIDS			
Pass-through program from:			
City of San Jose	14.241	HOP-16-003	1,055,469
City of San Jose	14.241	HPSH-16-001	163,243
City of San Jose	14.241	HVAW-16-001	477,457
City of San Jose	14.241	HPSH-19-001	<u>263,008</u>
Total Housing Opportunities for Persons With AIDS			<u>1,959,177</u>
Home Investment Partnerships Program			
Pass-through program from:			
City of San Jose	14.239	HOME-17-001	<u>407,025</u>
Continuum of Care Program			
Pass-through program from:			
County of Santa Clara	14.267	430014511	<u>606,835</u>
Total U.S. Department of Housing and Urban Development			<u>3,714,037</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) - Second Harvest of Silicon Valley	10.569	N/A	<u>113,659</u>
U.S. Department of the Treasury			
Coronavirus Relief Funds			
Pass-through program from:			
City of San Jose	21.019	N/A	<u>195,272</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, 2020

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 C, Nutrition Services	93.045	20200402.00	60,000
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	2020CO0322	59,981
Nutrition Services Incentive Program	93.053	20200402.00	<u>10,583</u>
Total Sourcewise			<u>130,564</u>
HIV Emergency Relief Project Grants			
Pass-through program from:			
County of Santa Clara	93.914	N/A	<u>1,718,728</u>
HIV Care Formula Grants			
Pass-through program from:			
California Department of Public Health Office of AIDS	93.917	17-10776	<u>770,768</u>
Total U.S. Department of Health and Human Services			<u>2,620,060</u>
U.S. Department of Homeland Security			
Emergency Food & Shelter Program	97.024	N/A	<u>20,000</u>
Total Expenditures of Federal Awards			<u>\$ 6,663,028</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, 2020

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, 2020. 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 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 or 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, 2020

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
Coronavirus Relief Funds	21.019
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, 2020

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, 2020

There were no prior year findings.