

THE HEALTH TRUST
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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Independent Auditors' Report

To the Board of Trustees
The Health Trust

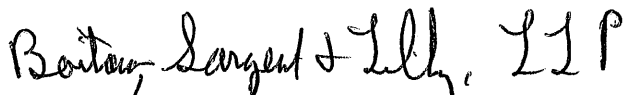
We have audited the accompanying statements of financial position of The Health Trust (a nonprofit organization) as of June 30, 2008 and 2007, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of The Health Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Health Trust as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2008 on our consideration of The Health Trust's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of The Health Trust taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



BOITANO, SARGENT & LILLY, LLP
October 15, 2008

THE HEALTH TRUST
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

ASSETS

	2008	2007
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,059,390	\$ 1,327,569
Investments in marketable securities	117,827,451	132,820,663
Accounts receivable, net of allowance	1,341,532	1,212,964
Other receivable	-	103,732
Other prepaid	153,796	258,843
Total current assets	120,382,169	135,723,771
 PROPERTY AND EQUIPMENT, net	 1,743,374	 589,013
 OTHER ASSETS		
Restricted investments	1,137,180	1,433,984
Other investments	1,424,951	1,328,570
Note receivable	-	750,000
Land and buildings held for investment, net	3,396,598	3,729,455
Total other assets	5,958,729	7,242,009
 TOTAL ASSETS	 \$ 128,084,272	 \$ 143,554,793

LIABILITIES & NET ASSETS

	2008	2007
CURRENT LIABILITIES		
Account payable	\$ 710,413	\$ 556,737
Accrued payroll and related liabilities	805,990	1,112,209
Accrued expenses due to discontinued operations	50,768	50,768
Grants payable	2,309,084	2,033,284
Other accrued expenses	112,230	96,131
Total current liabilities	3,988,485	3,849,129
 LONG-TERM LIABILITIES		
Grants payable	342,800	342,800
Accrued expenses due to discontinued operations	1,940,315	2,193,580
Total long-term liabilities	2,283,115	2,536,380
 TOTAL LIABILITIES	 6,271,600	 6,385,509
 NET ASSETS		
Unrestricted net assets		
Designated for medically related services	96,859,975	106,880,123
Undesignated	21,733,341	26,549,473
Total unrestricted net assets	118,593,316	133,429,596
Temporarily restricted net assets	2,777,896	3,300,958
Permanently restricted net assets	441,460	438,730
Total net assets	121,812,672	137,169,284
 TOTAL LIABILITIES AND NET ASSETS	 \$ 128,084,272	 \$ 143,554,793

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

THE HEALTH TRUST
STATEMENTS OF ACTIVITIES
JUNE 30, 2008 AND 2007

	2008	2007
UNRESTRICTED NET ASSETS		
Support		
Contributions	\$ 109,861	\$ 127,246
Government grants	3,544,907	3,543,365
In-kind contribution	317,782	359,301
Total support	3,972,550	4,029,912
Revenue		
Fee for service and other	1,763,875	1,502,101
Investment income, net	2,203,661	2,271,594
Net realized/unrealized gain (loss) on investments	(9,416,290)	22,662,110
Total revenue	(5,448,754)	26,435,805
Net assets released from restrictions	1,532,328	1,661,463
Total support and revenue	56,124	32,127,180
Expenses		
Program services	12,356,738	11,555,750
Support services		
Management and general	2,161,716	2,421,788
Fundraising	872,679	764,761
Total support services	3,034,395	3,186,549
Total expenses	15,391,133	14,742,299
Operating gain (loss)	(15,335,009)	17,384,881
Gain (loss) from sales of assets	337,164	(52,261)
Gain from discontinued operations	161,565	10,814
Increase (decrease) in unrestricted net assets	(14,836,280)	17,343,434
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	1,157,718	1,032,819
Government grants	7,950	22,527
Investment income, net	38,007	52,652
Net Realized/unrealized loss	(194,409)	363,469
Net assets released from restrictions	(1,532,328)	(1,661,463)
Decrease in temporarily restricted net assets	(523,062)	(189,996)
PERMANENTLY RESTRICTED NET ASSETS		
Contributions	2,730	2,695
INCREASE (DECREASE) IN NET ASSETS	(15,356,612)	17,156,133
NET ASSETS AT BEGINNING OF YEAR	137,169,284	120,013,151
NET ASSETS AT END OF YEAR	\$ 121,812,672	\$ 137,169,284

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

THE HEALTH TRUST
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008

	2008			
	Program Services	Management and General	Fund Raising	Total Expenses
Grants to others	\$ 2,891,735	\$ -	\$ -	\$ 2,891,735
Salaries and related expenses:				
Wages and related	3,237,598	682,189	396,238	4,316,025
Payroll taxes	278,547	58,329	32,123	368,999
Employee benefits	1,015,840	212,715	103,711	1,332,266
Total salaries and related expenses	<u>4,531,985</u>	<u>953,233</u>	<u>532,072</u>	<u>6,017,290</u>
Services and supplies:				
Advertising	48,860	12,630	3,933	65,423
Building and equipment rental	672,817	164,615	46,999	884,431
Depreciation	102,014	62,908	10,628	175,550
Dues and subscriptions	2,593	6,707	3,389	12,689
Insurance	15,766	74,145	-	89,911
Other expenses	279,090	68,836	26,854	374,780
Professional fees	471,901	442,292	124,325	1,038,518
Purchased services	2,324,397	156,590	98,324	2,579,311
Supplies	774,418	159,505	10,433	944,356
Training	28,824	15,099	7,903	51,826
Travel	120,309	30,742	4,077	155,128
Utilities	92,029	14,414	3,742	110,185
Total services and supplies	<u>4,933,018</u>	<u>1,208,483</u>	<u>340,607</u>	<u>6,482,108</u>
Total expenses	<u>\$ 12,356,738</u>	<u>\$ 2,161,716</u>	<u>\$ 872,679</u>	<u>\$ 15,391,133</u>

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

THE HEALTH TRUST
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007

	2007			
	Program Services	Management and General	Fund Raising	Total Expenses
Grants to others	\$ 2,882,465	\$ -	\$ -	\$ 2,882,465
Salaries and related expenses:				
Wages and related	3,474,585	1,007,564	231,214	4,713,363
Payroll taxes	290,882	69,840	16,896	377,618
Employee benefits	1,042,779	209,652	57,526	1,309,957
Total salaries and related expenses	4,808,246	1,287,056	305,636	6,400,938
Services and supplies:				
Advertising	99,823	4,384	1,240	105,447
Building and equipment rental	435,314	53,112	52,999	541,425
Depreciation	119,597	36,976	10,766	167,339
Dues and subscriptions	11,074	16,710	3,845	31,629
Insurance	22,287	85,265	505	108,057
Other expenses	182,824	139,980	47,207	370,011
Professional fees	342,181	404,300	34,346	780,827
Purchased services	1,819,330	233,569	282,673	2,335,572
Supplies	623,635	95,299	12,252	731,186
Training	16,191	19,203	1,448	36,842
Travel	103,509	30,139	2,914	136,562
Utilities	89,274	15,795	8,930	113,999
Total services and supplies	3,865,039	1,134,732	459,125	5,458,896
Total expenses	\$ 11,555,750	\$ 2,421,788	\$ 764,761	\$ 14,742,299

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

THE HEALTH TRUST
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (15,356,612)	\$ 17,156,133
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	175,550	167,339
Gain from sales of properties and equipment	(337,164)	(52,261)
Unrealized (gain) loss on investment	17,142,120	(11,011,553)
(Increase) decrease in operating assets:		
Accounts receivable	(128,568)	157,496
Other receivable and prepaid	208,779	(50,766)
Note receivable	750,000	50,000
Increase (decrease) in operating liabilities:		
Accounts payable & other accrued expenses	169,775	208,820
Accrued payroll and related liabilities	(306,219)	437,884
Accrued expenses due to discontinued operations	(253,265)	109,392
Grants payable	275,800	(614,764)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,340,196	6,557,720
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(2,148,908)	(6,806,181)
Purchases of properties and equipment	(1,479,890)	(227,548)
Proceeds from sale of properties and equipment	820,000	-
Changes in restricted investments	296,804	(122,243)
Sale (purchase) of other investments	(96,381)	400,708
NET CASH USED BY INVESTING ACTIVITIES	(2,608,375)	(6,755,264)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(268,179)	(197,544)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,327,569	1,525,113
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,059,390	\$ 1,327,569

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

THE HEALTH TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

The Health Trust is a California nonprofit public benefit corporation founded in 1996 from the sale of three local nonprofit hospitals. For more than 12 years the organization has been a catalyst for Silicon Valley community partnerships that identify health issues and work together to find innovative solutions. The Health Trust is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

The Health Trust engages in policy and advocacy, provides grants and continues its legacy of providing health services including Meals On Wheels, AIDS Services, Children's Dental Services, and health education and insurance enrollment assistance through its Wellness Access and Education Program. Its Meals On Wheels Program provides 97,000 meals annually to individuals who are physically challenged, homebound, or elderly, supporting the nutrition, health and independence of these residents. AIDS Services operates the largest program in Santa Clara County for individuals and their families with HIV/AIDS, providing case management, housing assistance, food, education and a community center, serving almost 1,000 clients each year. Its brand new Children's Dental Center expects to serve 15,000 children, bringing preventive oral health care to many children without ready access to a dentist. Wellness Access and Education helps over 5,000 children and adults enroll in public health insurance programs each year and also educates local communities about health and wellness through grassroots activities.

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

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

- Educating the community about healthy behavior;
- Encouraging cities and counties to support health by incorporating health into their general plans (general plans outline the future of a city's development);
- Using grant making and advocacy to foster the development of community/school gardens and urban/sustainable agriculture to expand access to fruits and vegetables;
- Promoting organization wellness and providing organizational wellness services to corporations, businesses, government, nonprofits and faith-based groups;
- Providing leadership, staff resources and coordination through the Healthy Silicon Valley community collaborative to best leverage resources and achieve desired change.

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

- Expanding physical activity opportunities in new and existing programs and community care settings for older adults;
- Improving hospital-to-home discharge planning and transition support services;
- Providing leadership and coordination for a county-wide Aging Services Collaborative that advances the well-being of older adults and their caregivers with joint advocacy, planning and fund development.
- Supporting and educating caregivers;
- Establishing neighborhood-based cafés that provides healthy nutrition, social connections and community-defined programs and services for older adults.

THE HEALTH TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES (CONTINUED)

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

- Partnering with organizations to address the root causes of health disparities such as poverty, racism, discrimination and inequities in health, education and income;
- Providing access to prevention, screening and management of chronic diseases through direct service delivery, grant making and partnerships;
- Supporting health care coverage and services via direct service delivery and through grant making and advocacy;
- Providing oral health prevention, education and treatment services for children and promoting policies that support oral health;
- Supporting employee wellness for businesses with uninsured or underinsured employees.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The Health Trust adopted Statements of Financial Accounting Standards (SFAS) No.116, *Accounting For Contributions Received and Contributions Made*, SFAS No.117, *Financial Statements of Not-for-Profit Organizations*, and SFAS No.136, *Transfer of Assets to a Not-for-Profit Organization That Raises or Holds Contributions for Others*.

- (i) As required by SFAS No. 117, the accompanying financial statements have been prepared to focus on The Health Trust as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of fund balances and transactions into the following classes of net assets:

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of The Health Trust and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be permanently maintained by The Health Trust.

- (ii) As required by SFAS No. 116, revenue, support, gains and losses on investments are reported as increases in unrestricted net assets unless uses of the related assets are limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets. Unconditional promises to give are recognized in the period received. Conditional promises to give are not recognized until they become unconditional.
- (iii) As required by SFAS No. 136, funds raised on behalf of other organizations are not recognized as contribution revenue on the Statements of Activities. Instead they are recorded as assets and liabilities on the Statements of Financial Position.

THE HEALTH TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid investments with original maturities of 90 days or less, excluding cash received with a donor-imposed restriction that limits its use to long-term purposes.

(c) Investments and Investment Earnings

Investments in marketable equity securities are stated at their readily determinable fair value. Investment earnings available for distribution are recorded in unrestricted net assets. Investment earnings, net of investment expenses of \$864,311 and \$746,839 for the year ended June 30, 2008 and 2007, respectively are recorded in temporarily or permanently restricted net assets based on the nature of the restrictions.

(d) Property and Equipment

Property and equipment are capitalized at cost. It is the Organization's policy to capitalize expenditures for these items in excess of \$500. Lesser amounts are expensed. Depreciation is provided over the estimated useful life of the asset and is computed on the straight-line method.

(e) Income Taxes

The Health Trust is a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code, and therefore, is generally exempt from federal and state income taxes.

(f) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates. Actual results may vary.

NOTE 3 – INVESTMENTS IN MARKETABLE SECURITIES

Investments are stated at readily determinable fair value, and consist of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain(Loss)</u>
June 30, 2008			
Available for sale:			
Large Cap Value Fund	\$ 18,510,616	\$ 22,207,423	\$ 3,696,807
Large Cap Growth Fund	18,212,528	16,727,832	(1,484,696)
Small Cap Funds	9,182,958	7,819,849	(1,363,109)
International Fund	17,601,002	18,029,485	428,483
R.E.I.T.	6,037,330	5,730,310	(307,020)
Hedge Fund of Funds	11,218,366	14,987,507	3,769,141
Fixed Income Fund	32,661,044	32,325,045	(335,999)
Total	<u>\$ 113,423,844</u>	<u>\$ 117,827,451</u>	<u>\$ 4,403,607</u>

THE HEALTH TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 3 – INVESTMENTS IN MARKETABLE SECURITIES (CONTINUED)

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
June 30, 2007			
Available for sale:			
Large Cap Value Fund	\$ 19,197,075	\$ 23,248,311	\$ 4,051,236
Large Cap Growth Fund	17,452,041	22,787,558	5,335,517
Small Cap Funds	8,984,716	16,090,745	7,106,029
International Fund	17,564,738	19,532,566	1,967,828
R.E.I.T.	4,463,826	5,458,996	995,170
Hedge Fund of Funds	11,183,174	13,916,158	2,732,984
Fixed Income Fund	<u>32,429,366</u>	<u>31,786,329</u>	<u>(643,037)</u>
Total	<u>\$ 111,274,936</u>	<u>\$ 132,820,663</u>	<u>\$ 21,545,727</u>

Investment activities for the current year:

Unrealized gain as of June 30, 2008	\$ 4,403,607
Unrealized gain as of June 30, 2007	<u>21,545,727</u>
Decrease in unrealized gain during the year	(17,142,120)
Net realized gain during the year	7,203,722
Net realized/unrealized gain on other investments	<u>327,699</u>
Total net realized/unrealized gain	<u>\$ (9,610,699)</u>
Net realized/unrealized gain in	
Unrestricted net assets	\$ (9,416,290)
Temporary restricted net assets	<u>(194,409)</u>
Total net realized/unrealized gain	<u>\$ (9,610,699)</u>

NOTE 4 – PROPERTY AND EQUIPMENT

During 2008, The Health Trust has added over \$1,200,000 of leasehold improvement in the dental clinic located on 1153 S. King Road, San Jose CA. Property and equipment consists of the following at June 30:

	<u>Depreciable Life</u>	<u>2008</u>	<u>2007</u>
Equipment	5 to 20 years	\$ 1,070,660	\$ 1,446,607
Leasehold improvements	15 years	<u>1,641,962</u>	<u>302,555</u>
		2,712,622	1,749,162
Less accumulated depreciation		<u>969,248</u>	<u>1,160,149</u>
Net property and equipment		<u>\$ 1,743,374</u>	<u>\$ 589,013</u>

THE HEALTH TRUST
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2008 AND 2007

NOTE 5 – LAND AND BUILDINGS HELD FOR INVESTMENT

During 2008, real property located on 838 E. St. John Street, San Jose California was sold for \$570,000. Land and buildings held for investment, stated at cost, consist of the following at June 30:

	Depreciable Life	2008	2007
Land		\$ 3,294,848	\$ 3,519,848
Buildings	27.5 years	370,000	486,540
		3,664,848	4,006,388
Less accumulated depreciation		268,250	276,933
Net land and buildings		\$ 3,396,598	\$ 3,729,455

NOTE 6 – ACCOUNTS RECEIVABLE

Management utilizes the reserve method of accounting for doubtful accounts based on historical experience and Management's evaluation of outstanding accounts receivable at the end of each year. The allowance for doubtful accounts as of June 30, 2008 and 2007 was \$10,000 and \$6,000, respectively.

NOTE 7 – RESTRICTED INVESTMENTS

The Health Trust is the fiduciary of a retirement account for a physician. Balances of these accounts are reported as restricted investments on the Statements of Financial Positions and the offset balance is included in accrued expenses due to discontinued operations under long term liabilities. As of June 30, 2008 and 2007, the balance of these retirement accounts was \$1,073,088 and \$1,326,353, respectively. Restricted investments also include balances in 457(f) deferred compensation plans (Note 10) of \$64,092 and \$107,631 as of June 30, 2008 and 2007, respectively.

NOTE 8 – OTHER INVESTMENTS

Other investments, stated at fair value, include minority interests in several entities of \$1,424,951 and \$1,328,570 as of June 30, 2008 and 2007, respectively.

NOTE 9 – COMPENSATED ABSENCES

The Health Trust has a combined vacation and sick pay compensation policy. Vacation and sick time is accumulated on the basis of length of service. Benefits may be accrued to a total of one and half times of the annual allowance, at which time no further time is accrued. At June 30, 2008 and 2007, an accrual for this obligation is included in accrued payroll and related liabilities in the amount of \$267,701 and \$250,210, respectively.

NOTE 10 – PENSION PLANS

The Health Trust maintains an employee contribution 403(b) savings plan which contains an employer matching 401(a) component. Participants may contribute a percentage of their compensation as defined in the plan agreements. The amount of contribution is matched 50% (up to six percent of an employee's salary) by The Health Trust. The Health Trust has also adopted a 401(a) defined contribution plan where the annual contribution is determined at the discretion of the Board of Trustees.

THE HEALTH TRUST
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2008 AND 2007

NOTE 10 – PENSION PLANS (CONTINUED)

A contribution was approved by The Health Trust as of December 31, 2007 in the amount of 5% of eligible employees' compensation. An accrual equal to 5% of the compensation of eligible employees and the current 50% match for the six months ended June 30, 2008 has been included in other accrued expenses.

The Health Trust also maintains 457(f) deferred compensation plans for senior executives. Contributions to the plans are subject to substantial risk of forfeiture and determined by the Board of Trustees each year.

NOTE 11 – GRANTS PAYABLE

Grants payable consist of amounts awarded, but not yet paid, to local and public nonprofit organizations. The amounts are to be paid as follows:

	2008	2007
Payable in less than one year	\$ 2,309,084	\$ 2,033,284
Payable over more than one year	<u>342,800</u>	<u>342,800</u>
	<u>\$ 2,651,884</u>	<u>\$ 2,376,084</u>

NOTE 12 – DISCONTINUED OPERATIONS

Effective January 5, 1996, The Health Trust and various prior affiliates sold substantially all of their operating assets to Notami, a wholly owned subsidiary of HCA – The Healthcare Company, for approximately \$165,000,000 in cash, adjusted for certain purchase price adjustments, and the assumption of certain liabilities. The revenue and expenses related to the closing out of assets and liabilities associated with the prior business are reflected as discontinued operations in the accompanying Statements of Activities.

Proceeds from the sale of operations were utilized to decrease or extinguish substantially all of The Health Trust's outstanding debt. Subsequent to these transactions, The Health Trust's remaining assets consist primarily of cash and investments and its obligations consist primarily of grants payables and payroll and related liabilities. The Health Trust continues to operate and fund community health care programs.

NOTE 13 – THE HEALTH TRUST DESIGNATED NET ASSETS

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

The board-designated fund of \$96,859,975 and \$106,880,123 on June 30, 2008 and 2007, respectively, is to be used for medically related services and expenditures provided within Santa Clara County and Northern San Benito County by or through a public or not-for-profit tax-exempt hospital. Insurance covering medical services for the medically indigent may also be funded.

The undesignated portion of The Health Trust's net assets are available for The Health Trust's general purposes to promote and enhance the health of the greater Santa Clara County community and totaled \$21,733,341 and \$26,549,473 on June 30, 2008 and 2007, respectively.

THE HEALTH TRUST
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2008 AND 2007

NOTE 14 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of \$2,777,896 and \$3,300,958 reported in the accompanying statements of financial position as of June 30, 2008 and 2007, respectively, are available for the following purposes:

	<u>2008</u>	<u>2007</u>
Donor Advised Funds - SJMCF	\$ 1,696,057	\$ 1,864,413
Natalie Fund	72,944	52,055
Dental Initiative	230,272	491,854
Wellness Access and Education	133,174	74,596
AIDS Services	81,164	100,592
Meals on Wheels	176,715	325,319
Other purposes	<u>387,570</u>	<u>392,129</u>
Total temporarily restricted net assets	<u>\$ 2,777,896</u>	<u>\$ 3,300,958</u>

NOTE 15 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets of \$441,460 and \$438,730 are reported in the accompanying statements of financial position as of June 30, 2008 and 2007, respectively.

NOTE 16 – DONATED SERVICES

Contributions of donated noncash assets are recorded at their fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair value in the period received.

Over the last fiscal year, The Health Trust received a significant amount of donated services from unpaid volunteers who contributed over 35,600 hours to support its ongoing programs and general operations. Most of the donated services have not been recognized in the statement of activities since they do not meet the criteria for recognition under SFAS No. 116, Accounting for Contributions Received and Contributions Made.

NOTE 17 - CONCENTRATION OF CREDIT RISK

The Health Trust consistently maintains a balance in a bank account in excess of the federally insured limit of \$100,000.

NOTE 18 – CITY GRANTS

During the fiscal year ended June 30, 2008, The Health Trust received \$29,875 from City of San Jose to fund "Meals for Low Income Senior Program" and \$9,063 from City of Sunnyvale to fund the "Senior Program - Meals on Wheels". The funds were spent in accordance to the terms set forth in the contracts.

THE HEALTH TRUST
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2008 AND 2007

NOTE 19 - LEASE OBLIGATIONS

The Health Trust is obligated under the following leases:

For premises at 2105 South Bascom Avenue, Campbell, California at a rate of \$34,201 per month with a 4% annual inflation adjustment. The lease agreement ends on June 30, 2012.

For premises at 1701 South Bascom Avenue, Campbell, California at a rate of \$8,452 per month. The lease agreement ends on November 30, 2009.

For premises at 48A Race St, San Jose, California at a rate of \$6,879 per month. The lease agreement ends on June 30, 2017.

For premises at 1400 Parkmoor Ave, San Jose, California at a rate of \$4,721 per month. The lease agreement ends on June 30, 2018.

For premises at 1153 S. King Rd, San Jose, California at a rate of \$19,096 per month. The lease agreement ends on November 30, 2017.

The minimum future rent payments under non-cancelable leases having remaining terms in excess of one year as of June 30, 2008, for each year and in the aggregate are:

<u>Fiscal Year</u>	<u>Lease Payment</u>
2009	\$ 880,188
2010	809,914
2011	842,311
2012	876,004
2013 and thereafter	<u>2,092,185</u>
	<u>\$ 5,550,602</u>

NOTE 20 – CONFLICT OF INTEREST POLICY

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

NOTE 21 – FINANCIAL AND ADMINISTRATIVE SUPPORT SERVICES

In furtherance of its mission to provide funding and support for health care services and community health programs, The Health Trust provides financial and administrative support services to School Health Clinics of Santa Clara, Via Services, Stroke Awareness Foundation, Center for Excellence in Non-Profits, TransAccess, Silicon Valley Council of Non-Profits, Friends Outside of Santa Clara Valley, RotaCare Bay Area Inc., Loaves and Fishes Family Kitchens, SJSU Tower Foundation, Act for Mental Health, The Tech Museum of Innovation, Diabetes Society, Alzheimer Activity Center, Institute for One World Health, SIREN and Islamic Networks Group, independent California nonprofit corporations exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code. The related revenue and expenses are recorded as fee for services revenue and program expenses on the Statement of Activities.

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

To the Board of Trustees
The Health Trust

We have audited the financial statements of The Health Trust (a non profit organization) as of the year ended June 30, 2008, and have issued our report thereon dated October 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Health Trust's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the board of trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Boitano, Sargent & Lilly LLP

BOITANO, SARGENT & LILLY, LLP
October 15, 2008

THE HEALTH TRUST
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
Department of Housing and Urban Development: Pass-through from City of San Jose Housing Opportunities for Persons with AIDS	14.241	N/A	\$ 1,143,414
Department of Health and Human Services: Pass-through from County of Santa Clara HIV Emergency Relief Project and Formula Funding	93.915	99-7504/00-7504	870,393
Department of Health and Human Services: HIV Care Formula Grants Case management program	93.917	99-85350	444,554
Department of Health and Human Services: Pass-through from Council on Aging Older Americans Act	93.045	N/A	54,020
Corporation for National and Community Services	94.013	N/A	15,000
Department of Health and Human Services: Pass-through from Council on Aging Meals on Wheels	93.053	N/A	38,282
			<u>\$ 2,565,663</u>
Department of Health and Human Services: Pass-through from Council on Aging	93.043	N/A	\$ 28,334 *

* These grants were not recorded as revenue or program expenditures and were directly passed to beneficiaries.

See accompanying notes.

THE HEALTH TRUST
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

The Health Trust is a nonprofit corporation organized to financially support and operate certain health care programs in Santa Clara County, State of California. The programs operated by The Health Trust that receive federal financial support are as follows:

- AIDS Services
- Meals on Wheels

NOTE 2 - GENERAL

The accompanying schedule of expenditures of federal awards (the schedule) presents the activity of all federal award programs of The Health Trust for the year ended June 30, 2008. Federal awards received directly from federal agencies, as well as federal awards passed through other agencies, are included in the schedule.

NOTE 3 –BASIS OF ACCOUNTING – SCHEDULES OF FEDERAL AWARDS

The schedule has been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles for the year ended June 30, 2008.

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees
The Health Trust

Compliance

We have audited the compliance of The Health Trust with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Health Trust's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of The Health Trust's management. Our responsibility is to express an opinion on The Health Trust's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Health Trust's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on The Health Trust's compliance with those requirements.

In our opinion, The Health Trust complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of The Health Trust is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered The Health Trust's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of management, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Boitano, Sargent and Lilly LLP". The signature is written in a cursive, flowing style.

BOITANO, SARGENT AND LILLY, LLP
October 15, 2008

THE HEALTH TRUST
 SCHEDULE OF FINDINGS, QUESTIONED COSTS AND PRIOR AUDIT FINDINGS
 FOR THE YEAR ENDED JUNE 30, 2008

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of The Health Trust.
2. No reportable conditions relating to the audit of the financial statements were reported in the Unqualified Opinion on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards.
3. No instances of noncompliance material to the financial statements of The Health Trust were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for The Health Trust expresses an unqualified opinion.
6. No audit findings disclosed are required to be reported in accordance with Section 510 (a) of Circular A-133.
7. The programs tested as major programs include:

<u>Title</u>	<u>FEDERAL CFDA Number</u>
Housing Opportunities for Persons with AIDS	14.241
HIV Care Formula Grants Ryan White Title II	93.917

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Health Trust was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT
None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT
None

D. SUMMARY OF PRIOR AUDIT FINDINGS

No prior audit findings