

THE HEALTH TRUST  
AUDITED FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

## Table of Contents

	<u>Page</u>
Independent Auditors' Report .....	1
Statements of Financial Position as of June 30, 2007 and 2006 .....	3
Statements of Activities for the years ended June 30, 2007 and 2006 .....	5
Statements of Functional Expenses for the years ended June 30, 2007 and 2006 .....	6
Statements of Cash Flows for the years ended June 30, 2007 and 2006 .....	8
Notes to Financial Statements as of June 30, 2007 and 2006 .....	9
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards .....	19
Schedule of Expenditures of Federal Awards for the year ended June 30, 2007 .....	21
Notes to Schedule of Expenditures of Federal Awards for the year ended June 30, 2007 .....	22
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 .....	23
Schedule of Findings and Questioned Costs .....	25
Schedule of Prior Audit Findings .....	27

# BOITANO, SARGENT & LILLY, LLP

## *Certified Public Accountants*

1760 THE ALAMEDA  
SAN JOSE, CALIFORNIA 95126  
TELEPHONE (408) 287-2123

www.bsllcpa.com  
FAX (408) 294-1856

## *Certified Staff*

CHRIS COLLINS MADRID  
JIMMIE MAGDALENO  
KATHLEEN MATRANGA BENSON  
JAMES C. WAI  
ANTHIE KARVOUNIS  
CRYSTAL K. HOFER  
KEVIN EPES  
ALICE BOYD

LOUIS F. BOITANO  
FRANK L. BOITANO  
STEVEN F. BOITANO  
H. OGDEN LILLY

FRANCES V. SARGENT  
(1957-1988)

## Independent Auditors' Report

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

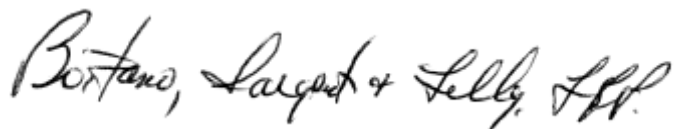
We have audited the accompanying statements of financial position of The Health Trust as of June 30, 2007 and 2006, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of The Health Trust's management. 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 provides 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, 2007 and 2006, and the statements of activities and 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, 2007 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.

A handwritten signature in cursive script that reads "Boitano, Sargent & Lilly, LLP".

BOITANO, SARGENT & LILLY, LLP

October 15, 2007

THE HEALTH TRUST  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2007 AND 2006

ASSETS

	2007	2006
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,328,000	\$ 1,525,000
Investment in marketable securities	132,820,000	114,961,000
Accounts receivable, net of allowance	1,213,000	1,371,000
Other receivables	104,000	125,000
Prepays	259,000	187,000
Total current assets	135,724,000	118,169,000
 <b>PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$1,160,000 and \$1,044,000, respectively</b>		
	589,000	473,000
 <b>OTHER ASSETS:</b>		
Restricted investments	1,434,000	1,312,000
Other investments	1,328,000	1,729,000
Note receivable	750,000	800,000
Land and building held for investment, net of accumulated depreciation of \$277,000 and \$229,000, respectively	3,730,000	3,774,000
Total other assets	7,242,000	7,615,000
 <b>TOTAL ASSETS</b>	 <b>\$ 143,555,000</b>	 <b>\$ 126,257,000</b>

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

THE HEALTH TRUST  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2007 AND 2006

LIABILITIES AND NET ASSETS

	2007	2006
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 557,000	\$ 337,000
Accrued payroll and related liabilities	1,005,000	566,000
Accrued expenses due to discontinued operations	51,000	35,000
Accrued expenses	203,000	214,000
Grants payable	<u>2,033,000</u>	<u>2,648,000</u>
Total current liabilities	<u>3,849,000</u>	<u>3,800,000</u>
 <b>LONG-TERM LIABILITIES:</b>		
Grants payable	343,000	343,000
Accrued expenses due to discontinued operations	<u>2,194,000</u>	<u>2,100,000</u>
Total long-term liabilities	<u>2,537,000</u>	<u>2,443,000</u>
 <b>TOTAL LIABILITIES</b>	 <u>6,386,000</u>	 <u>6,243,000</u>
 <b>NET ASSETS:</b>		
Unrestricted net assets:		
Designated by the Board of Trustees for medically related services and expenditures	106,880,000	92,369,000
Undesignated	<u>26,549,000</u>	<u>23,717,000</u>
Total unrestricted net assets	133,429,000	116,086,000
Temporarily restricted net assets	3,220,000	3,411,000
Permanently restricted net assets	<u>520,000</u>	<u>517,000</u>
Total net assets	<u>137,169,000</u>	<u>120,014,000</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u>\$ 143,555,000</u>	 <u>\$ 126,257,000</u>

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

THE HEALTH TRUST  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
UNRESTRICTED NET ASSETS:		
Support:		
Contributions	\$ 12,000	\$ 100,000
United Way of Santa Clara County	103,000	128,000
Government grants	3,543,000	3,775,000
In-kind contribution	372,000	214,000
Total support	4,030,000	4,217,000
Revenue:		
Fee for services	1,502,000	1,431,000
Investment income, net of investment expenses of \$718,000 and \$644,000, respectively	2,219,000	2,484,000
Net realized/unrealized gain	22,662,000	6,407,000
Total revenue	26,383,000	10,322,000
Net assets released from restrictions	1,661,000	1,364,000
Total support and revenue	32,074,000	15,903,000
Expenses:		
Program services	11,556,000	11,595,000
Support services:		
Management and general	2,422,000	1,452,000
Fundraising	764,000	715,000
Total support services	3,186,000	2,167,000
Total expenses	14,742,000	13,762,000
Operating gain	17,332,000	2,141,000
Gain from discontinued operations	11,000	68,000
Increase in unrestricted net assets	17,343,000	2,209,000
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	1,032,000	1,167,000
Government grants	23,000	8,000
Investment income, net of investment expenses of \$28,000 and \$25,000, respectively	52,000	45,000
Net realized/unrealized gain	363,000	135,000
Net assets released from restrictions	(1,661,000)	(1,364,000)
Decrease in temporarily restricted net assets	(191,000)	(9,000)
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	3,000	173,000
Increase in permanently restricted net assets	3,000	173,000
INCREASE IN NET ASSETS	17,155,000	2,373,000
NET ASSETS AT BEGINNING OF YEAR	120,014,000	117,641,000
NET ASSETS AT END OF YEAR	\$ 137,169,000	\$ 120,014,000

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
Allocation to agencies	\$ 2,883,000	\$ 0	\$ 0	\$ 2,883,000
Salaries and related expenses				
Salaries and wages	3,474,000	1,007,000	232,000	4,713,000
Payroll taxes	291,000	70,000	17,000	378,000
Employee benefits	1,043,000	210,000	57,000	1,310,000
Total salaries and related expenses	4,808,000	1,287,000	306,000	6,401,000
Services and supplies				
Purchased services	1,819,000	234,000	283,000	2,336,000
Professional fees	342,000	404,000	34,000	780,000
Supplies	624,000	95,000	12,000	731,000
Building and equipment rental	435,000	53,000	53,000	541,000
Utilities	89,000	16,000	9,000	114,000
Insurance	22,000	85,000	1,000	108,000
Travel	103,000	30,000	3,000	136,000
Advertising	100,000	4,000	1,000	105,000
Training	16,000	19,000	1,000	36,000
Dues and subscriptions	11,000	17,000	4,000	32,000
Depreciation	120,000	37,000	11,000	168,000
Other expenses	184,000	141,000	46,000	371,000
Total services and supplies	3,865,000	1,135,000	458,000	5,458,000
Total expenses	\$ 11,556,000	\$ 2,422,000	\$ 764,000	\$ 14,742,000

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

THE HEALTH TRUST  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2006

	2006			
	Program Services	Management and General	Fund Raising	Total Expenses
Allocation to agencies	\$ 3,578,000	\$ 0	\$ 0	\$ 3,578,000
Salaries and related expenses				
Salaries and wages	3,205,000	529,000	316,000	4,050,000
Payroll taxes	270,000	40,000	23,000	333,000
Employee benefits	946,000	213,000	82,000	1,241,000
Total salaries and related expenses	4,421,000	782,000	421,000	5,624,000
Services and supplies				
Purchased services	1,944,000	51,000	118,000	2,113,000
Professional fees	251,000	278,000	17,000	546,000
Supplies	601,000	66,000	21,000	688,000
Building and equipment rental	312,000	75,000	49,000	436,000
Utilities	90,000	14,000	9,000	113,000
Insurance	46,000	85,000	0	131,000
Travel	109,000	18,000	4,000	131,000
Advertising	14,000	4,000	0	18,000
Training	19,000	18,000	2,000	39,000
Dues and subscriptions	4,000	3,000	3,000	10,000
Depreciation	128,000	18,000	12,000	158,000
Other expenses	78,000	40,000	59,000	177,000
Total services and supplies	3,596,000	670,000	294,000	4,560,000
Total expenses	\$ 11,595,000	\$ 1,452,000	\$ 715,000	\$ 13,762,000

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

THE HEALTH TRUST  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 17,155,000	\$ 2,373,000
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	168,000	158,000
Gain on disposition of assets	(11,000)	0
Unrealized gain on investments	(11,051,000)	(1,222,000)
(Increase) decrease in operating assets:		
Accounts receivable	157,000	740,000
Other receivables and prepaids	(51,000)	307,000
Note receivable	50,000	0
Increase (decrease) in operating liabilities:		
Accounts payable and other accrued expenses	209,000	(153,000)
Accrued payroll and related liabilities	438,000	(21,000)
Accrued expenses due to discontinued operations	111,000	(48,000)
Grants payable	<u>(615,000)</u>	<u>284,000</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>6,560,000</u>	<u>2,418,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net purchases of marketable securities	(6,807,000)	(4,325,000)
Purchases of fixed assets	(228,000)	(62,000)
Change in restricted investments	(122,000)	(28,000)
(Purchases) sales of other investments	<u>400,000</u>	<u>(160,000)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(6,757,000)</u>	<u>(4,575,000)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(197,000)	(2,157,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,525,000</u>	<u>3,682,000</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,328,000</u>	<u>\$ 1,525,000</u>

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

THE HEALTH TRUST  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

The Health Trust is a California nonprofit public benefit corporation that operates and provides funding for health care services and community health programs, primarily in Santa Clara County. The Health Trust is a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code.

Prior to January 5, 1996, The Health Trust and various prior affiliates owned and operated an integrated healthcare system, including three hospitals. On that date, The Health Trust and the prior affiliates sold substantially all of their operating assets to Notami Hospitals of California, Inc. (Notami), a wholly owned subsidiary of HCA – The Healthcare Company.

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. After the sale to Notami, The Health Trust engaged in extensive negotiations with the Office of the California Attorney General to define permissible uses of its assets and related income. An agreement was reached and court approved in October 1997. On June 8, 1998, The Health Trust amended its bylaws to reflect a new agreement with the Attorney General with respect to the future use of its assets. The permitted uses defined in the agreement are set forth in Note 12.

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) Temporarily Restricted Net Assets

With respect to temporarily restricted net assets, The Health Trust has adopted the following optional accounting policies as permitted by various provisions of SFAS No. 116:

THE HEALTH TRUST  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Temporarily Restricted Net Assets (continued)

The Health Trust has adopted the provisions of SFAS No. 116 which provide for release from restrictions on temporarily restricted net assets upon the incurrence of an expense when both unrestricted and temporarily restricted net assets are available for that purpose.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenue of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

(iii) Revenue

Revenue is 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. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

(iv) Contributions

Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund-raising activity.

With respect to contribution revenue, The Health Trust has adopted SFAS No. 136, *Transfer of Assets to a Not-for-Profit Organization That Raises or Holds Contributions for Others*.

(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.

THE HEALTH TRUST  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Investments and Investment Income

As required by SFAS No. 124, investments in marketable equity securities are stated at their readily determinable fair value. Unrealized gains and losses on the increase or decrease in fair values are included in the Statement of Activities.

Income and realized net gains on investments of permanently restricted net assets are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of income;
- as increases in unrestricted net assets in all other cases.

(d) Fair Value of Financial Instruments

The fair value of investments in marketable securities is determined using quoted market rates.

The carrying amount of cash and cash equivalents, accounts receivable, prepaids, other current assets, accounts payable, accrued payroll and related liabilities, and other current liabilities approximates fair value due to the short-term maturities of these instruments and obligations.

Management has determined the carrying amount of other investments, and other assets held long-term as well as other long-term liabilities approximates fair values.

(e) 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.

(f) 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.

(g) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

THE HEALTH TRUST  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Contributed Materials, Equipment and Services

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenue in the unrestricted net asset class. Contributions of cash or other assets with donor-imposed restrictions to be used to acquire property and equipment are reported as revenue in the temporarily restricted net asset class. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

Contributed materials and equipment are reflected as contributions in the accompanying financial statements at their estimated values at date of receipt.

Contributed services are reflected in the financial statements at the fair value of the services received. The contributions of services are recognized if the services (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills and would normally need to be purchased if not provided by donation.

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, 2007			
Available for sale:			
Individual security	\$ 210,000	\$ 6,213,000	\$ 6,003,000
Large Cap Value Fund	19,198,000	23,246,000	4,048,000
Large Cap Growth Fund	17,452,000	22,788,000	5,336,000
Small Cap Funds	8,775,000	9,877,000	1,102,000
International Fund	17,567,000	19,535,000	1,968,000
R.E.I.T.	4,463,000	5,459,000	996,000
Hedge Fund of Funds	11,183,000	13,916,000	2,733,000
Fixed Income Fund	<u>32,429,000</u>	<u>31,786,000</u>	<u>(643,000)</u>
Total	<u>\$ 111,277,000</u>	<u>\$ 132,820,000</u>	<u>\$ 21,543,000</u>

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
June 30, 2006			
Available for sale:			
Large Cap Value Fund	\$ 19,315,000	\$ 21,754,000	\$ 2,439,000
Large Cap Growth Fund	18,921,000	22,346,000	3,425,000
Small Cap Funds	10,453,000	11,183,000	730,000
International Fund	9,050,000	11,754,000	2,704,000
R.E.I.T.	4,356,000	5,864,000	1,508,000
Hedge Fund of Funds	11,330,000	12,119,000	789,000
Fixed Income Fund	<u>31,044,000</u>	<u>29,941,000</u>	<u>(1,103,000)</u>
Total	<u>\$ 104,469,000</u>	<u>\$ 114,961,000</u>	<u>\$ 10,492,000</u>

THE HEALTH TRUST  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 3 - INVESTMENTS IN MARKETABLE SECURITIES (CONTINUED)

Investment activities for the current year:

Unrealized gain in marketable securities as of June 30, 2007	\$ 21,543,000
Unrealized gain in marketable securities as of June 30, 2006	<u>10,492,000</u>
Unrealized gain in marketable securities during the year	11,051,000
Net realized gain in marketable securities	11,703,000
Net realized/unrealized gain on other investments	<u>271,000</u>
Total net realized/unrealized gain	<u>\$ 23,025,000</u>

Net realized/unrealized gain in	
Unrestricted net assets	\$ 22,662,000
Temporary restricted net assets	<u>363,000</u>
Total net realized/unrealized gain	<u>\$ 23,025,000</u>

The Organization holds 280,101 shares of Accuray Inc. at cost of \$210,000. During fiscal year 2007, Accuray Inc. went public. As part of the IPO agreement, these shares are restricted from sale for 180 days from the date of IPO. According to FAS 124, an equity security with restriction that expires within one year does not qualify as restricted stock and the fair value is determined by its bid-and-ask quotation available on a securities exchange. Consequently, fair value of these shares was adjusted based on the closing price on the last trading day of the fiscal year, which resulted in \$6,003,000 in unrealized net gain.

NOTE 4 - 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, 2007 and 2006 was \$6,000 and \$8,000, respectively.

NOTE 5 - OTHER RECEIVABLES

At June 30, 2007 and 2006, other receivables consist of the following:

	<u>2007</u>	<u>2006</u>
Interest receivable	\$ 43,000	\$ 47,000
Rental income receivable	0	78,000
Receivable from discontinued operations	<u>61,000</u>	<u>0</u>
Total	<u>\$ 104,000</u>	<u>\$ 125,000</u>

THE HEALTH TRUST  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 6 - 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.

A contribution was approved by The Health Trust as of December 31, 2006 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, 2007 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 7 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	Depreciable <u>Life</u>	<u>2007</u>	<u>2006</u>
Equipment	5 to 20 years	\$ 1,446,000	\$ 1,316,000
Leasehold improvements	15 years	<u>303,000</u>	<u>201,000</u>
		1,749,000	1,517,000
Less accumulated depreciation and amortization		<u>1,160,000</u>	<u>1,044,000</u>
Net property and equipment		<u>\$ 589,000</u>	<u>\$ 473,000</u>

NOTE 8 – LAND AND BUILDINGS HELD FOR INVESTMENT

Land and buildings are held at historical costs as permitted by SFAS No. 157, *Fair Value Measurements*. As of June 30, 2007, fair value of these properties is estimated to be as high as \$15,000,000, which is not reflected on the Statements of Financial Positions.

NOTE 9 - OTHER ASSETS

The Health Trust is the fiduciary of the retirement accounts for two physicians. Balances of these accounts are reported as restricted investments on the balance sheet and the offset balance is included in accrued expenses due to discontinued operations under long term liabilities. As of June 30, 2007 and 2006, the balance of these retirement accounts was \$1,326,000 and \$1,233,000, respectively. Restricted investments also include balances in 457(f) deferred compensation plans (Note 6) of \$108,000 and \$79,000 as of June 30, 2007 and 2006, respectively.

THE HEALTH TRUST  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2007 AND 2006

NOTE 9 - OTHER ASSETS (CONTINUED)

In 2001, The Health Trust committed \$1,566,000 to Northgate Capital Group (NCG), a venture capital firm which invests primarily in early stage high tech companies. As of June 30, 2007, The Health Trust has invested \$1,378,000 in NCG. NCG anticipates calling capital quarterly in the range of 2% to 5%. The Health Trust is obligated to invest up to its commitment. As of June 30, 2007 and 2006, the fair market value of this investment was \$1,101,000 and \$1,000,000, respectively. As of June 30, 2007 and 2006, other investments also include \$227,000 and \$729,000, respectively, of minority ownership in several other entities.

Other assets also include a note receivable from the sale of real property in 1996. The note is secured by a deed of trust. The note is due October 2008, with an interest rate of 7.5% per year. Balances of this note as of June 30, 2007 and 2006 were \$750,000 and \$800,000, respectively. Subsequent to year ended June 30, 2007, the note was paid off early in October of 2007.

NOTE 10 - 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, third-party settlements, and payroll and related liabilities. The Health Trust continues to operate and fund community health care programs.

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:

	2007	2006
Payable in less than one year	\$ 2,033,000	\$ 2,648,000
Payable over more than one year	343,000	343,000
	\$ 2,376,000	\$ 2,991,000

NOTE 12 - THE HEALTH TRUST DESIGNATED NET ASSETS

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 HEALTH TRUST  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 12 - THE HEALTH TRUST DESIGNATED NET ASSETS (CONTINUED)

The board-designated fund of \$106,880,000 and \$92,369,000 on June 30, 2007 and 2006, 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 \$26,549,000 and \$23,717,000 on June 30, 2007 and 2006, respectively.

NOTE 13 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of \$3,220,000 and \$3,411,000 reported in the accompanying statements of financial position as of June 30, 2007 and 2006, respectively, are available for the following purposes:

	<u>2007</u>	<u>2006</u>
Donor Advised Funds - SJMCF	\$ 2,116,000	\$ 1,860,000
Natalie Fund	52,000	77,000
Dental Initiative	393,000	820,000
Family Health Insurance	14,000	22,000
Health Connections	101,000	169,000
Healthy Santa Clara County	37,000	4,000
Meals on Wheels	325,000	230,000
MindsAlive	0	66,000
Volunteer related	99,000	99,000
Community Health Promotions	67,000	14,000
Other purposes	16,000	50,000
Total temporarily restricted net assets	<u>\$ 3,220,000</u>	<u>\$ 3,411,000</u>

NOTE 14 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets of \$520,000 and \$517,000 are reported in the accompanying statements of financial position as of June 30, 2007 and 2006, respectively.

NOTE 15 - 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 twice the annual allowance, at which time no further time is accrued. At June 30, 2007 and 2006, an accrual for this obligation is included in accrued payroll and related liabilities in the amount of \$250,000 and \$261,000, respectively.

THE HEALTH TRUST  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 16 – DONATED SERVICES

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 - LEASE OBLIGATIONS

The Health Trust is obligated under the following leases:

For premises at 2105 South Bascom Avenue, Campbell, California at a rate of \$33,970 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, 2008.

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.

The minimum future rent payments under non-cancelable leases having remaining terms in excess of one year as of June 30, 2007, for each year and in the aggregate are:

<u>Fiscal Year</u>	<u>Lease Payment</u>
2008	\$ 592,000
2009	466,000
2010	523,000
2011	540,000
2012	<u>556,000</u>
	<u>\$ 2,677,000</u>

NOTE 18 - CONCENTRATION OF CREDIT RISK

As of June 30, 2007 and 2006, and periodically throughout the year, The Health Trust maintained a balance in a bank account in excess of the federally insured limit of \$100,000.

NOTE 19 – CITY GRANTS

During the fiscal year ended June 30, 2007, The Health Trust received \$28,456 from City of San Jose to fund “Meals for Low Income Senior Program” and \$11,360 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, 2007 AND 2006

NOTE 20 – 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, Next Door Solutions to Domestic Violence, Center for Excellence in Non-Profits, TransAccess, Silicon Valley Council of Non-Profits, Friends Outside of Santa Clara Valley, RotoCare Bay Area Inc., Loaves and Fishes Family Kitchens, and SJSU Tower Foundation, 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. Subsequent to June 30, 2007, ACT for Mental Health and the Tech Museum of San Jose were added to this program.

NOTE 21 – 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.

# BOITANO, SARGENT & LILLY, LLP

*Certified Public Accountants*

1760 THE ALAMEDA  
SAN JOSE, CALIFORNIA 95126  
TELEPHONE (408) 287-2123

www.bsllcpa.com  
FAX (408) 294-1856

LOUIS F. BOITANO  
FRANK L. BOITANO  
STEVEN F. BOITANO  
H. OGDEN LILLY

FRANCES V. SARGENT  
(1957-1988)

*Certified Staff*

CHRIS COLLINS MADRID  
JIMMIE MAGDALENO  
KATHLEEN MATRANGA BENSON  
JAMES C. WAI  
ANTHIE KARVOUNIS  
CRYSTAL HOFER  
KEVIN EPES  
ALICE BOYD

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

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

We have audited the financial statements of The Health Trust as of the year ended June 30, 2007, and have issued our report thereon dated October 15, 2007. 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.

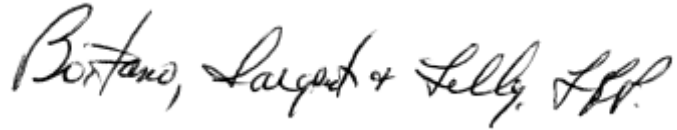
### Compliance

As part of obtaining reasonable assurance about whether The Health Trust'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*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Health Trust's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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.

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

BOITANO, SARGENT & LILLY, LLP

October 15, 2007

THE HEALTH TRUST  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2007

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Expenditures</u>
Department of Housing and Urban Development: Pass-through from City of San Jose Housing Opportunities for Persons with AIDS	14.241	N/A	\$ 1,123,087
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	857,084
Department of Health and Human Services: HIV Care Formula Grants Case management program	93.917	99-85350	320,745
Department of Health and Human Services: Pass-through from Council on Aging Older Americans Act	93.045	N/A	176,864
Corporation for National and Community Services	94.013	N/A	11,541
Department of Health and Human Services: Pass-through from Council on Aging Meals on Wheels	93.053	N/A	59,028
			<u>\$ 2,548,349</u>
Department of Health and Human Services: Pass-through from Council on Aging Community Health Partnership Rota Care Bay Area Asian Americans for community involvement American Heart Association	93.043	N/A	\$ 10,000 10,000 10,000 5,000
			<u>\$ 35,000*</u>

\* 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, 2007

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, 2007. 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 – SCHEDULE 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, 2007.

# BOITANO, SARGENT & LILLY, LLP

*Certified Public Accountants*

1760 THE ALAMEDA  
SAN JOSE, CALIFORNIA 95126  
TELEPHONE (408) 287-2123

www.bsllcpa.com  
FAX (408) 294-1856

LOUIS F. BOITANO  
FRANK L. BOITANO  
STEVEN F. BOITANO  
H. OGDEN LILLY

FRANCES V. SARGENT  
(1957-1988)

*Certified Staff*

CHRIS COLLINS MADRID  
JIMMIE MAGDALENO  
KATHLEEN MATRANGA BENSON  
JAMES C. WAI  
ANTHIE KARVOUNIS  
CRYSTAL HOFER  
KEVIN EPES  
ALICE BOYD

## 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  
San Jose, California

### 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, 2007. 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.

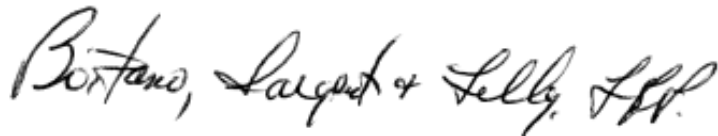
In our opinion, The Health Trust complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. The results of our auditing procedures disclosed no instances of material noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

### 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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.

A handwritten signature in cursive script that reads "Boitano, Sargent & Lilly, LLP".

BOITANO, SARGENT AND LILLY, LLP

October 15, 2007

THE HEALTH TRUST  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2007

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.

THE HEALTH TRUST  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD  
PROGRAMS AUDIT

None

THE HEALTH TRUST  
SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2007

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No prior audit findings