

HEALTH S.E.T.

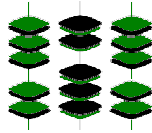
**Financial Statements
(Audited)**

*For the Years Ending
June 30, 2008 and 2007*

**HEALTH S.E.T.
Financial Statements
June 30, 2008 and 2007**

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Ryan, Gunsauls & O'Donnell, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Health S.E.T.
Denver, Colorado

We have audited the accompanying statements of financial position of Health S.E.T. (a Colorado not-for-profit 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 Health S.E.T.'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. 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 Health S.E.T. as of June 30, 2008 and 2007, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Ryan, Gunsauls & O'Donnell, P.C.

Denver, Colorado
December 20, 2008

Financial Services and Tax Advisors since 1954

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HEALTH S.E.T.
Statements of Financial Position

	June 30	
	2008	2007
Assets		
Current assets:		
Cash and equivalents	\$ 149,593	\$ 49,580
Restricted cash (Note 1)	82,875	78,000
Pledges receivable, net (Note 3)	142,846	324,446
Total current assets	<u>375,314</u>	<u>452,026</u>
Investments:		
Internally designated for capital and other funds	111,073	120,511
Permanently restricted donor funds	369,598	369,598
Total investments limited as to use	<u>480,671</u>	<u>490,109</u>
Property and equipment, net	<u>1,808</u>	<u>1,243</u>
Total assets	<u><u>\$ 857,793</u></u>	<u><u>\$ 943,378</u></u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 1,625	\$ 2,061
Accrued compensation and benefits	14,863	16,384
Due to related party (Note 7)	61,753	50,751
Total current liabilities	<u>78,241</u>	<u>69,196</u>
Net assets (Note 2):		
Unrestricted net assets	190,963	108,843
Temporarily restricted net assets	218,991	395,741
Permanently restricted net assets	369,598	369,598
Total net assets	<u>779,552</u>	<u>874,182</u>
Total liabilities and net assets	<u><u>\$ 857,793</u></u>	<u><u>\$ 943,378</u></u>

See accompanying notes.

HEALTH S.E.T.
Statements of Activities

	Years Ended June 30	
	2008	2007
Unrestricted net assets		
Support:		
Grants	\$ 75,000	\$ 74,420
In-kind contributions (Note 4)	140,343	131,604
Donations	113,414	157,671
Net assets released from restrictions	333,061	151,611
Total support	<u>661,818</u>	<u>515,306</u>
Revenue:		
Interest and dividend income	18,532	15,117
Miscellaneous income	16	2,068
Amortization discount	6,730	-
Net realized gains on investments	10,129	16,223
Total revenue	<u>35,407</u>	<u>33,408</u>
Total support and revenue	<u>697,225</u>	<u>548,714</u>
Expenses:		
Program services	493,316	444,159
General and administrative	52,792	39,024
Fundraising	37,681	25,757
Total expenses	<u>583,789</u>	<u>508,940</u>
Excess of support and revenue over expenses	113,436	39,774
Unrealized investments (losses) gains	<u>(31,316)</u>	<u>36,050</u>
Increase in unrestricted net assets	<u>82,120</u>	<u>75,824</u>
Temporarily restricted net assets		
Grants	70,000	423,741
Donations	11,798	6,048
Contract revenue	74,513	90,358
Net assets released from restrictions	<u>(333,061)</u>	<u>(151,611)</u>
(Decrease) increase in temporarily restricted net assets	<u>(176,750)</u>	<u>368,536</u>
(Decrease) increase in net assets	<u>(94,630)</u>	<u>444,360</u>
Net assets at beginning of year	<u>874,182</u>	<u>429,822</u>
Net assets at end of year	<u>\$ 779,552</u>	<u>\$ 874,182</u>

See accompanying notes.

HEALTH S.E.T.
Statement of Functional Expenses
For the Year Ending June 30, 2008

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fund- raising</u>	<u>Total</u>
Expenses:				
Salaries and benefits	\$ 350,781	\$ 27,603	\$ 24,748	\$ 403,132
Rent	92,912	5,080	4,354	102,346
Professional services and contract	10,340	8,374	2,250	20,964
Staff travel and education	12,823	3,553	-	16,376
Program and office supplies	5,098	2,138	-	7,236
Moving and database	5,781	864	-	6,645
Copier lease	5,647	454	389	6,490
Fundraising events	-	-	5,150	5,150
Miscellaneous	520	4,203	350	5,073
Printing	3,169	255	219	3,643
Insurance	2,997	241	207	3,445
Membership dues and subscriptions	1,925	-	-	1,925
Telephone	<u>1,323</u>	<u>27</u>	<u>14</u>	<u>1,364</u>
Total expenses	\$ <u>493,316</u>	\$ <u>52,792</u>	\$ <u>37,681</u>	\$ <u>583,789</u>
Percentage of Total	<u>85%</u>	<u>9%</u>	<u>6%</u>	<u>100%</u>

See accompanying notes.

HEALTH S.E.T.
Statement of Functional Expenses
For the Year Ending June 30, 2007

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fund- raising</u>	<u>Total</u>
Expenses:				
Salaries and benefits	\$ 292,649	\$ 28,353	\$ 20,770	\$ 341,772
Rent	117,756	3,853	2,161	123,770
Professional services and contract	4,085	3,336	2,250	9,671
Staff travel and education	7,405	823	-	8,228
Program and office supplies	5,454	222	123	5,799
Moving and database	-	-	-	-
Copier lease	5,130	656	179	5,965
Fundraising events	-	-	-	-
Miscellaneous	3,353	1,241	-	4,594
Printing	3,003	234	100	3,337
Insurance	2,810	294	163	3,267
Membership dues and subscriptions	1,387	-	-	1,387
Telephone	<u>1,127</u>	<u>12</u>	<u>11</u>	<u>1,150</u>
Total expenses	\$ <u>444,159</u>	\$ <u>39,024</u>	\$ <u>25,757</u>	\$ <u>508,940</u>
Percentage of total	<u>87%</u>	<u>8%</u>	<u>5%</u>	<u>100%</u>

See accompanying notes.

HEALTH S.E.T.
Statements of Cash Flows

	Years Ended June 30	
	2008	2007
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (94,630)	\$ 444,360
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation expense	677	478
Net unrealized and realized losses (gains) on investments	21,187	(52,273)
Net change in current assets and liabilities:		
Pledges receivable	181,600	(322,646)
Accounts payable	(436)	1,212
Accrued compensation and benefits	(1,521)	(354)
Due to related party	11,002	30,441
	<hr/>	<hr/>
Net cash provided by operating activities	117,879	101,218
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Cash flows from investing activities:		
Purchase of property and equipment	(1,242)	(1,721)
Net decrease in investments and restricted cash	(16,624)	(89,417)
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Net cash used in investing activities	(17,866)	(91,138)
	<hr/>	<hr/>
Net increase in cash and equivalents	100,013	10,080
Cash and equivalents at beginning of year	49,580	39,500
	<hr/>	<hr/>
Cash and equivalents at end of year	\$ 149,593	\$ 49,580
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See accompanying notes.

HEALTH S.E.T.
Notes to Financial Statements
June 30, 2008 and 2007

Note 1: Summary of Significant Accounting Policies

Organization

Health S.E.T. is a Colorado not-for-profit organization that provides health and social services to low-income seniors within the Denver area. Health S.E.T. serves the community by working cooperatively with other programs consistent with the ministries of the corporation. Health S.E.T.'s main goal is to keep seniors living independently. Assistance for the programs is provided largely through volunteer work and the support of a small paid staff.

Effective January 1, 2006, sole corporate membership of Health S.E.T. was transferred from Catholic Health Initiatives (CHI) to CHI Colorado (CHIC). CHI is the sole corporate member of CHIC. CHI is a tax-exempt Colorado corporation that sponsors hospitals and other health-care related entities in 19 states. CHIC is also a tax-exempt Colorado corporation that operates eight hospitals as well as long-term care, home health and other related services throughout Colorado. As the sole corporate member, CHIC has the ability to approve and remove board members and manage the operations of Health S.E.T. CHIC provides in-kind support to Health S.E.T. in the form of payroll, accounting and other services.

Cash and Equivalents and Restricted Cash

Health S.E.T. considers cash and equivalents to be unrestricted highly liquid investments with an original maturity of three months or less. Restricted cash represents funds expected to be released in the next fiscal year. Restricted cash was \$82,875 and \$78,000 as of June 30, 2008 and 2007, respectively.

Property and Equipment

Property and equipment, consisting of communications equipment, are stated at cost. Depreciation is provided by the straight-line method over the estimated useful life of 3 years. Accumulated depreciation was \$1,155 and \$478 at June 30, 2008 and 2007, respectively.

Income Taxes

No provision for income taxes is provided, as Health S.E.T. is a not-for-profit organization, classified as a publicly supported organization as described in Sections 509(a)(1) and 170(b)(1)(a)(vi) of the Internal Revenue Code (IRC), and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and the Colorado Income Tax Act of 1964 (as amended). Accordingly, monetary contributions are deductible to the donor for tax purposes to the extent allowed by the Internal Revenue Service.

HEALTH S.E.T.
Notes to Financial Statements, continued

Note 1: Summary of Significant Accounting Policies, continued

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could vary from those estimates.

Investments

All marketable securities have been measured at fair value, in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*.

Unrestricted funds not needed for current operations and donor restricted contributions are held in the CHI Investment Program. The Program is structured under a Limited Partnership agreement between CHI, as managing General Partner, and each participant. All investments in the Program are professionally managed under the administration of CHI. Assets held by the Program were invested 40% and 33% in marketable fixed-income securities, 37% and 48% in marketable equity securities and 23% and 19% in alternative investments, respectively, as of June 30, 2008 and 2007.

Investments held in the Program are represented by pool units valued monthly under a custodial accounting system. Investment income from the Program, including interest income, dividends, and realized gains or losses from the sale of securities, is distributed to participants based on the earnings per pool unit. Gains or losses are realized by participants when pool units are sold, representing the difference between the cost basis and the market value of the pool units sold. The fair value of the assets held is an allocation of the underlying market value of the assets in the Program, based upon pool units held by the participants.

For the years ended June 30, 2008 and 2007, changes in investment were as follows:

	<u>2008</u>	<u>2007</u>
Dividend and interest income	\$ 13,642	\$ 13,137
Net realized gains	10,129	16,223
Net unrealized (losses) gains	(31,316)	36,050
Allocated to general expenses	(1,893)	(1,719)
Net (decrease) increase in investments	(9,438)	63,691
Investments at beginning of year	<u>490,109</u>	<u>426,418</u>
Investments at end of year	<u>\$ 480,671</u>	<u>\$ 490,109</u>

HEALTH S.E.T.
Notes to Financial Statements, continued

Note 1: Summary of Significant Accounting Policies, continued

CHI periodically reviews the underlying investments in the CHI Investment Program for other-than-temporary declines in the value of the marketable securities. When other-than-temporary declines are identified, the investment is written down to its current market value. The loss is allocated to the pool units within the CHI Investment Program and is reported by Health S.E.T. as a reduction of investment income.

Reclassification

Certain amounts for the year ended June 30, 2007 have been reclassified to conform to the presentation for the year ended June 30, 2008. The reclassifications had no effect on Health S.E.T.'s previously reported financial position, related statements of activities, functional expenses, or cash flows.

Note 2: Contributions and Restrictions and Limitations on Net Assets

Health S.E.T. accounts for contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. SFAS No. 116 requires contributions to be reported as unrestricted, temporarily restricted, or permanently restricted support, depending upon the existence and/or nature of any donor restrictions.

Temporarily restricted net assets contain donor-imposed restrictions that expire either upon the passage of time or when Health S.E.T. undertakes a specific action. These net assets are then released and reclassified to unrestricted support where they are expended. At June 30, 2008 and 2007, respectively, the temporarily restricted net assets of \$218,991 and \$395,741 were derived from grant monies received for use in future fiscal years' programs. None of the investment was a part of the temporarily restricted net assets as of June 30, 2008 and 2007.

Permanently restricted net assets are nonexpendable assets where the donor has stipulated that the principle must remain in perpetuity, but the organization is allowed to spend the income. Permanently restricted net assets were \$369,598 as of June 30, 2008 and 2007.

Note 3: Pledges Receivable

Unconditional promises to give are recorded as pledges and grants when received. Health S.E.T. distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Pledges expected to be received after one year are recorded after being discounted to the anticipated net present value of the future cash flows.

HEALTH S.E.T.
Notes to Financial Statements, continued

Note 3: Pledges Receivable, continued

As of June 30, 2008 and 2007, pledges are expected to be realized in the following periods:

	<u>2008</u>	<u>2007</u>
In one year or less	\$ 60,250	\$ 189,830
Between one year and four years	88,125	146,875
	<u>148,375</u>	<u>336,705</u>
Less: Unamortized discount, 5%	(5,529)	(12,259)
	<u>\$ 142,846</u>	<u>\$ 324,446</u>

Note 4: In-Kind Contributions

Donated goods and equipment are recorded as revenue and support at the estimated fair value at the time of donation. Contributed services are recorded as revenue and support if the services received represent specialized skills that Health S.E.T. would otherwise have been required to purchase.

In-kind donations of rent, salaries, and supplies recognized for the years ending June 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Rent	\$ 102,347	\$ 123,769
Services	4,500	4,500
Supplies	2,453	3,335
Salaries	31,043	-
Total	<u>\$ 140,343</u>	<u>\$ 131,604</u>

Note 5: Concentrations and Risk

Financial instruments that potentially subject Health S.E.T. to concentrations of credit risk consist primarily of marketable securities. Substantially all of Health S.E.T.'s investments are held by the CHI Investment Program. The CHI Investment Program maintains its investments with various financial institutions and investment management firms, and its policy is designed to limit exposure to any one institution or investor. Investments are represented by pool units rather than specific securities. Accordingly, management does not believe there are significant concentrations of credit risk at June 30, 2008 and 2007.

Note 5: Concentrations and Risk, continued

Health S.E.T. maintains cash balances at financial institutions insured by the Federal Deposit Insurance Corporation (FDIC), in the normal course of business, Health S.E.T. may have deposits that exceed the insured balance.

HEALTH S.E.T.
Notes to Financial Statements, continued

Note 6: Commitments – Operating Lease

Equipment Operating Leases

Health S.E.T. currently leases office equipment under a non-cancelable operating lease. Lease expense for the years ending June 30, 2008 and 2007 were \$6,490 and \$5,965, respectively. Future minimum lease payments under a non-cancelable operating lease, with initial or remaining terms of one year or more are as follows:

Year Ending <u>June 30:</u>	
2009	\$ <u>1,167</u>
Total minimum lease payments	\$ <u><u>1,167</u></u>

Note 7: Related Party Transactions

Building Lease

Catholic Health Initiatives Colorado (CHIC), provided \$77,074 and \$51,044 of in-kind rents for space and parking, supplies, and services for the years ended June 30, 2008 and 2007, respectively. Future minimum lease payments under a non-cancelable operating lease, with initial or remaining terms of one year or more are as follows:

Year Ending <u>June 30:</u>	
2009	\$ 72,210
2010	74,381
2011	<u>38,028</u>
Total minimum lease payments	\$ <u><u>184,619</u></u>

Intercompany Payable

Health S.E.T. has a payable to Centura Health, a related company, for salaries and other accounts payable totaling \$61,753 and \$50,751 as of June 30, 2008 and 2007, respectively.