

**HEALTH S.E.T.**

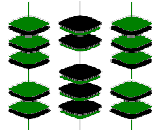
**Financial Statements  
(Audited)**

*For the Years Ending  
June 30, 2009 and 2008*

**HEALTH S.E.T.  
Financial Statements  
June 30, 2009 and 2008**

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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, 2009 and 2008, 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, 2009 and 2008, 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  
January 9, 2010

*Financial Services and Tax Advisors since 1954*

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**HEALTH S.E.T.**  
**Statements of Financial Position**

	<b>June 30</b>	
	<b>2009</b>	<b>2008</b>
<b>Assets</b>		
Current assets:		
Cash and equivalents	\$ 248,122	\$ 149,593
Restricted cash	8,000	82,875
Pledges receivable, net	89,623	142,846
Total current assets	<u>345,745</u>	<u>375,314</u>
Investments:		
Internally designated for capital and other funds	34,664	111,073
Permanently restricted donor funds	369,598	369,598
Total investments limited as to use	<u>404,262</u>	<u>480,671</u>
Property and equipment, net	<u>805</u>	<u>1,808</u>
Total assets	<u><u>\$ 750,812</u></u>	<u><u>\$ 857,793</u></u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 1,315	\$ 1,625
Accrued compensation and benefits	25,636	14,863
Due to related party	43,533	61,753
Total current liabilities	<u>70,484</u>	<u>78,241</u>
Net assets:		
Unrestricted net assets	193,358	190,963
Temporarily restricted net assets	117,372	218,991
Permanently restricted net assets	369,598	369,598
Total net assets	<u>680,328</u>	<u>779,552</u>
Total liabilities and net assets	<u><u>\$ 750,812</u></u>	<u><u>\$ 857,793</u></u>

*See accompanying notes.*

**HEALTH S.E.T.**  
**Statements of Activities**

	<b>Years Ended June 30</b>	
	<b>2009</b>	<b>2008</b>
<b>Unrestricted net assets</b>		
Support:		
Grants	\$ 230,000	\$ 75,000
In-kind contributions	150,474	140,343
Donations	26,130	113,414
Special events	42,740	-
Net assets released from restrictions	289,958	333,061
Total support	739,302	661,818
Investment income:		
Interest and dividend income	16,149	18,548
Amortization discount	4,130	6,730
Net realized (loss) gain on investments	(25,493)	10,129
Total (loss) revenue	(5,214)	35,407
Total support and revenue	734,088	697,225
<b>Expenses:</b>		
Program services	547,917	493,316
General and administrative	51,518	52,792
Fundraising	69,708	37,681
Total expenses	669,143	583,789
Excess of support and revenue over expenses	64,945	113,436
Unrealized investments losses	(62,550)	(31,316)
Increase in unrestricted net assets	2,395	82,120
Temporarily restricted net assets		
Grants	52,500	70,000
Donations	8,701	11,798
Contract revenue	127,138	74,513
Net assets released from restrictions	(289,958)	(333,061)
Decrease in temporarily restricted net assets	(101,619)	(176,750)
Decrease in net assets	(99,224)	(94,630)
Net assets at beginning of year	779,552	874,182
Net assets at end of year	\$ 680,328	\$ 779,552

*See accompanying notes.*

**HEALTH S.E.T.**  
**Statement of Functional Expenses**  
**For the Year Ending June 30, 2009**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fund- raising</u>	<u>Total</u>
Expenses:				
Salaries and benefits	\$ 405,301	\$ 31,590	\$ 30,680	\$ 467,571
Rent	92,366	4,878	4,738	101,982
Fundraising events	-	-	30,477	30,477
Staff travel and education	13,313	2,528	-	15,841
Marketing	11,196	231	115	11,542
Printing	9,529	743	721	10,993
Professional services and contract	2,067	5,407	2,500	9,974
Program and office supplies	4,938	1,960	-	6,898
Miscellaneous	466	3,706	34	4,206
Insurance	2,889	225	219	3,333
Copier lease	2,714	212	205	3,131
Telephone	1,834	38	19	1,891
Membership dues and subscriptions	<u>1,304</u>	<u>-</u>	<u>-</u>	<u>1,304</u>
 Total expenses	 \$ <u>547,917</u>	 \$ <u>51,518</u>	 \$ <u>69,708</u>	 \$ <u>669,143</u>
 Percentage of total expenses	 <u>82%</u>	 <u>8%</u>	 <u>10%</u>	 <u>100%</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
Fundraising events	-	-	5,150	5,150
Staff travel and education	12,823	3,553	-	16,376
Printing	3,169	255	219	3,643
Professional services and contract	10,340	8,374	2,250	20,964
Program and office supplies	5,098	2,138	-	7,236
Miscellaneous	520	4,203	350	5,073
Insurance	2,997	241	207	3,445
Copier lease	5,647	454	389	6,490
Telephone	1,323	27	14	1,364
Membership dues and subscriptions	1,925	-	-	1,925
Moving and database	<u>5,781</u>	<u>864</u>	<u>-</u>	<u>6,645</u>
Total expenses	\$ <u>493,316</u>	\$ <u>52,792</u>	\$ <u>37,681</u>	\$ <u>583,789</u>
Percentage of total expenses	<u>85%</u>	<u>9%</u>	<u>6%</u>	<u>100%</u>

*See accompanying notes.*

**HEALTH S.E.T.**  
**Statements of Cash Flows**

	<b>Years Ended June 30</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Decrease in net assets	\$ (99,224)	\$ (94,630)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	977	677
Net unrealized and realized losses on investments	88,043	21,187
Net change in current assets and liabilities:		
Pledges receivable	53,223	181,600
Accounts payable	(284)	(436)
Accrued compensation and benefits	10,773	(1,521)
Due to related party	(18,220)	11,002
Net cash provided by operating activities	35,288	117,879
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	-	(1,242)
Net increase (decrease) in investments and restricted cash	63,241	(16,624)
Net cash provided by (used in) investing activities	63,241	(17,866)
Net increase in cash and equivalents	98,529	100,013
Cash and equivalents at beginning of year	149,593	49,580
Cash and equivalents at end of year	\$ 248,122	\$ 149,593

*See accompanying notes.*

**HEALTH S.E.T.**  
**Notes to Financial Statements**  
**June 30, 2009 and 2008**

**Note 1: Summary of Significant Accounting Policies**

This summary of significant accounting policies of Health S.E.T. is presented to assist in understanding Health S.E.T.'s financial statements. The financial statements and notes are representations of Health S.E.T.'s management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of financial statements.

**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 organization. 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.

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 20 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.

**Basis of Accounting**

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States and accordingly reflect all significant receivables and payables.

**Basis of Presentation**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statement of Not-For-Profit Organizations*. Under SFAS No. 117, Health S.E.T. is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted, temporarily restricted, and permanently restricted net assets.

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

**Note 1: Summary of Significant Accounting Policies, continued**

**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 \$8,000 and \$82,875 as of June 30, 2009 and 2008, respectively.

**Property and Equipment**

It is Health S.E.T.'s policy to capitalize property and equipment over \$500. As of June 30, 2009 and 2008, 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 \$2,132 and \$1,155 at June 30, 2009 and 2008, respectively. Depreciation expense for the period ended June 30, 2009 and 2008, was \$977 and \$677, respectively. Repairs and maintenance charges, which do not increase the useful lives of the assets, are charged to operations as incurred.

Management assesses the carrying value of long-lived assets for impairment when circumstances indicate such amounts may not be recoverable from future operations. Generally, assets to be held and used in operations are considered impaired if the sum of the expected discounted future cash flows is less than the carrying amount of the assets. If impairment is indicated, the loss is measured based on the amount by which the carrying value exceeds its fair value. Management does not believe that any impairment has occurred as of June 30, 2009 and 2008.

**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. is, however, subject to income tax on any unrelated business income. Management has determined that there were no estimated income taxes on unrelated business income for the years ended June 30, 2009 and 2008.

**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. Accordingly actual results could vary from those estimates.

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

**Note 1: Summary of Significant Accounting Policies, continued**

**Investments**

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 38% and 40% in marketable fixed-income securities, 34% and 37% in marketable equity securities and 28% and 23% in alternative investments, respectively, as of June 30, 2009 and 2008.

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, 2009 and 2008, changes in investment were as follows:

	<u>2009</u>	<u>2008</u>
Dividend and interest income	\$ <b>13,119</b>	\$ 13,642
Net realized (losses) gains	<b>(25,493)</b>	10,129
Net unrealized losses	<b>(62,550)</b>	(31,316)
Allocated to general expenses	<b>(1,485)</b>	(1,893)
Net decrease in investments	<b>(76,409)</b>	(9,438)
Investments at beginning of year	<b>480,671</b>	490,109
Investments at end of year	<b><u>\$ 404,262</u></b>	<b><u>\$ 480,671</u></b>

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.

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

**Note 1: Summary of Significant Accounting Policies, continued**

**Expense Allocation**

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Indirect expenses are allocated to program and supporting services on the basis of the function and areas benefited and use of the assets. All other costs can be specifically identified with a particular function and are charged directly to that function.

**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 the restrictions are met. At June 30, 2009 and 2008, respectively, the temporarily restricted net assets of \$117,372 and \$218,991 were derived from grant monies received for use in future fiscal years. Earnings on the investment were a part of the temporarily restricted net assets as of June 30, 2009 and 2008.

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, 2009 and 2008.

**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.

As of June 30, 2009 and 2008, pledges are expected to be realized in the following periods:

	<b>2009</b>	<b>2008</b>
In one year or less	\$ <b>61,647</b>	\$ 60,250
Between one and five years	<b>29,375</b>	88,125
	<b>91,022</b>	148,375
Less: Unamortized discount, 5%	<b>(1,399)</b>	(5,529)
	<b>\$ 89,623</b>	\$ 142,846

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

**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, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Rent	\$ <b>101,983</b>	\$ 102,347
Salaries	<b>40,745</b>	31,043
Services	<b>5,000</b>	4,500
Supplies	<b>2,746</b>	2,453
Total	<u><b>\$ 150,474</b></u>	<u>\$ 140,343</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, 2009 and 2008.

Health S.E.T. places its cash receipts and investments with financial institutions and attempts to limit the amount of credit exposure to the organization. At June 30, 2009, and throughout the year, Health S.E.T.'s cash on deposit with its financial services providers never exceeded the insurance limit established by the Federal Deposit Insurance Corporation. The organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

**Note 6: Related Party Transactions**

**Building Lease**

Catholic Health Initiatives Colorado (CHIC), provided \$72,210 and \$77,074 of in-kind rents for space and parking, supplies, and services for the years ended June 30, 2009 and 2008, 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>	
2010	74,381
2011	<u>38,028</u>
Total minimum lease payments	<u>\$ 112,409</u>

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

**Note 6: Related Party Transactions, continued**

**Intercompany Payable**

Health S.E.T. has a payable to Centura Health, a related company, for salaries and other accounts payable totaling \$43,533 and \$61,753 as of June 30, 2009 and 2008, respectively.

**Note 7: Fair Values of Financial Instruments**

Effective July 1, 2008, Health S.E.T adopted FAS 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair values, establishes a consistent framework for measuring fair value and expands disclosure requirements for fair value measurements.

Under FAS 157, assets and liabilities are grouped in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobserved assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Under FAS 157, Health S.E.T bases fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements for assets and liabilities where there exists limited or no observable market data and, therefore, are based primarily upon Health S.E.T's estimates, are often calculated based on current pricing policy, the economic and competitive environment, the characteristics of the asset or liability and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future values.

Fair value measurements for assets recorded at fair value on a recurring basis at June 30, 2009 and 2008 are \$404,262 and \$480,671, respectively. Health S.E.T. did not have any Level 2 or Level 3 investments for the years ending June 30, 2009 or 2008.

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

**Note 8: Donor-designated Endowments**

Health S.E.T.'s endowment consists of one individual fund and earnings and appreciations thereof. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of Health S.E.T. has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Health S.E.T. classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Health S.E.T. in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Health S.E.T. considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investment, (6) other resources of Health S.E.T., and (7) Health S.E.T.'s investment policies.

*Investment Return Objectives, Risk Parameters and Strategies.* The investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes fixed-income securities, equity securities and alternative investments, that are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to grow the funds if possible. Therefore, Health S.E.T. expects its endowment asset, over time, to produce an average rate of return of approximately 4% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Endowment net asset composition by type of fund as of June 30, 2009 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds	\$ -	\$ 34,664	\$ 369,598	\$ 404,262
Total funds	\$ -	\$ 34,664	\$ 369,598	\$ 404,262

Endowment net asset composition by type of fund as of June 30, 2008 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds	\$ -	\$ 111,073	\$ 369,598	\$ 480,671
Total funds	\$ -	\$ 111,073	\$ 369,598	\$ 480,671

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

**Note 8: Donor-designated Endowments, continued**

Changes in endowment net assets as of June 30, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ -	\$ 111,073	\$ 369,598	\$ 480,671
Investment income	-	11,634	-	11,634
Net depreciation	-	( 88,043)	-	(88,043)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 34,664</u>	<u>\$ 369,598</u>	<u>\$ 404,262</u>