



**WASHINGTON SQUARE HEALTH  
FOUNDATION, INC.**

Financial Statements

September 30, 1998 and 1997

(With Independent Auditors' Report Thereon)



Peat Marwick LLP

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### Independent Auditors' Report

The Board of Directors  
Washington Square Health Foundation, Inc.:

We have audited the accompanying balance sheets of Washington Square Health Foundation, Inc. as of September 30, 1998 and 1997 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit 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 Washington Square Health Foundation, Inc. as of September 30, 1998 and 1997 and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

*KPMG Peat Marwick LLP*

October 29, 1998



Member Firm of  
Klynveld Peat Marwick Goerdeler

**WASHINGTON SQUARE HEALTH  
FOUNDATION, INC.**

Balance Sheets

September 30, 1998 and 1997

<b>Assets</b>	<u>1998</u>	<u>1997</u>
Current assets:		
Cash and cash equivalents	\$ 292,954	372,248
Investments, at market value (note 3):		
Money market funds	1,847,876	1,621,673
Certificates of deposit	50,000	50,000
U.S. government agency issues	2,980,985	4,727,375
Corporate bonds	4,663,572	2,971,906
Common stocks	21,838,922	21,787,905
Annuity contract	61,018	42,521
Total investments	<u>31,442,373</u>	<u>31,201,380</u>
Accrued interest and dividends receivable	97,460	126,942
Prepaid expenses and other assets	18,939	22,706
Total current assets	31,851,726	31,723,276
Program-related investments (note 2(d))	555,657	318,852
Furniture and equipment, net	12,977	10,807
Other assets	1,459	1,459
Total assets	<u>\$ 32,421,819</u>	<u>32,054,394</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 52,219	48,305
Federal excise taxes payable (note 4)	40,105	35,482
Total current liabilities	92,324	83,787
Unrestricted net assets	<u>32,329,495</u>	<u>31,970,607</u>
Total liabilities and net assets	<u>\$ 32,421,819</u>	<u>32,054,394</u>

See accompanying notes to financial statements.

**WASHINGTON SQUARE HEALTH  
FOUNDATION, INC.**

Statements of Activities

Years ended September 30, 1998 and 1997

	1998	1997
Operating activities:		
Revenue:		
Interest and dividends	\$ 1,138,903	1,141,640
Net realized gain on investments	2,615,294	1,930,054
Other	4,974	5,567
Total operating revenue	3,759,171	3,077,261
Expenses:		
Grants	1,193,756	1,360,002
Management and general:		
Salaries	151,421	143,840
Payroll taxes	9,002	8,594
Professional fees:		
Investment management and custodial	175,971	164,579
Legal and accounting	33,062	33,652
Board fees and expenses	69,514	67,215
Occupancy	30,282	28,510
Office supplies	9,414	8,509
Insurance	18,792	21,379
Depreciation	3,569	3,288
Miscellaneous	26,919	24,250
Total management and general	527,946	503,816
Provision for federal excise taxes	59,340	31,474
Total operating expenses	1,781,042	1,895,292
Excess of operating revenue over expenses	1,978,129	1,181,969
Nonoperating activities – net unrealized gain (loss) on investments	(1,619,241)	3,412,141
Increase in net assets	358,888	4,594,110
Unrestricted net assets, beginning of year	31,970,607	27,376,497
Unrestricted net assets, end of year	\$ 32,329,495	31,970,607

See accompanying notes to financial statements.

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FOUNDATION, INC.**

Statements of Cash Flows

Years ended September 30, 1998 and 1997

	1998	1997
Cash flows from operating activities:		
Increase in net assets	\$ 358,888	4,594,110
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Net gain on investments	(996,053)	(5,342,195)
Depreciation	3,569	3,288
Changes in assets and liabilities:		
Accrued interest and dividends receivable	29,482	(10,693)
Prepaid expenses and other assets	3,767	554
Accounts payable and accrued expenses	3,914	711
Federal excise taxes payable	4,623	(34,132)
Net cash used in operating activities	(591,810)	(788,357)
Cash flows from investing activities:		
Proceeds from disposition of investments	17,720,908	17,134,735
Purchase of investments	(16,965,848)	(16,417,655)
Purchase of fixed assets	(5,739)	(1,270)
Repayments on (additions to) program-related investments	(236,805)	52,378
Net cash provided by investing activities	512,516	768,188
Net decrease in cash and cash equivalents	(79,294)	(20,169)
Cash and cash equivalents, beginning of year	372,248	392,417
Cash and cash equivalents, end of year	\$ 292,954	372,248

See accompanying notes to financial statements.

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Notes to Financial Statements

September 30, 1998 and 1997

**(1) Description of Foundation**

The Washington Square Health Foundation, Inc. (the Foundation) was established from the proceeds of the sale of Henrotin Hospital (the Hospital) in 1985. The Foundation supports various charitable, scientific, and educational activities and does not solicit donations.

**(2) Summary of Significant Accounting Policies**

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

**(a) Basis of Presentation**

The Foundation's financial statements have been prepared to focus on the organization as a whole and to present balances and transactions in accordance with the existence or absence of donor-imposed restrictions. Net assets and related activity are classified as unrestricted, temporarily restricted, and permanently restricted as follows:

*Unrestricted Net Assets* – Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category include investment income and related expenses associated with the core activities of the Foundation.

*Temporarily Restricted Net Assets* – Net assets that are subject to donor-imposed restrictions that may or will be met either by actions of the Foundation or the passage of time. The Foundation does not have any temporarily restricted net assets.

*Permanently Restricted Net Assets* – Net assets that are subject to donor-imposed restrictions to be maintained permanently by the Foundation. The Foundation does not have any permanently restricted net assets.

**(b) Cash Equivalents**

Cash equivalents consist of short-term money market accounts.

**(c) Investments**

Investment securities are presented in the financial statements at fair market value. The Foundation's investment portfolio consists of money market funds, certificates of deposit, U.S. government agency issues, corporate bonds, and common stocks. Therefore, the Foundation is subject to the risk of market volatility. Fair market value of investments is determined based on quoted market prices.

**(d) Program-related Investments**

In accordance with Section 4944 of the Internal Revenue Code, the Foundation is permitted to make investments that are related to its charitable, scientific, and educational activities. These investments, which are stated at cost, are anticipated to have a less than fair market value return. In the year of the investment, the Foundation receives a credit toward its distribution

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requirement. When the investment is recovered by the Foundation, it is required to recognize a negative distribution.

**(e) Furniture and Equipment**

Office furniture and equipment are stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from five to seven years. Maintenance, repairs, and minor renewals are charged to expense as incurred.

**(f) Operations**

Operating results in the statement of activities reflect all transactions increasing or decreasing unrestricted net assets except for the net unrealized gain or loss on investments.

**(g) Use of Estimates**

In order to prepare these financial statements in conformity with generally accepted accounting principles, management of the Foundation has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reporting of revenue, expenses, gains, and losses during the period. Actual results could differ from these estimates.

**(3) Investments**

Investments as of September 30, 1998 and 1997, are summarized as follows:

	1998		1997	
	Cost	Fair market value	Cost	Fair market value
Money market funds	\$ 1,847,876	1,847,876	1,621,673	1,621,673
Certificates of deposit	50,000	50,000	50,000	50,000
U.S. government agency issues	2,762,457	2,980,985	4,693,646	4,727,375
Corporate bonds	4,566,237	4,663,572	2,883,731	2,971,906
Common stocks	15,224,005	21,838,922	13,359,788	21,787,905
Annuity contract	61,018	61,018	42,521	42,521
	<u>\$ 24,511,593</u>	<u>31,442,373</u>	<u>22,651,359</u>	<u>31,201,380</u>

Included in U.S. government agency issues are collateralized mortgage obligations and asset-backed securities with market values of \$145,813 and \$410,443 in 1998 and 1997, respectively. Additionally, corporate bonds include collateralized mortgage obligations and asset-backed securities with market values of \$2,047,907 and \$1,593,092 in 1998 and 1997, respectively.

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**(4) Income Taxes**

The Foundation is acting as a private foundation under Section 509(a) of the Internal Revenue Code. In accordance with the Tax Reform Act of 1969 (the Act), the Foundation is subject to an excise tax on net investment income, including realized gains, as defined by the Act.

The Act requires that certain minimum distributions be made each year. The amount of these distributions is determined in accordance with a specified formula. The required distributions must be made within 12 months of year end in order to avoid additional tax. The grants made during fiscal 1998 satisfied the required distributions as computed as of September 30, 1997. Before September 30, 1999, the Foundation intends to grant approximately \$112,000 of required distributions as computed as of September 30, 1998.

**(5) Lease Commitment**

The Foundation has an office lease that expires in fiscal year 2000. During fiscal years 1998 and 1997, the Foundation incurred \$30,282 and \$28,510, respectively, in rent and related occupancy expenses under this lease. Minimum annual rentals due under this office lease are as follows:

1999	\$ 29,000
2000	<u>17,000</u>