



**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Financial Statements

September 30, 1999 and 1998

(With Independent Auditors' Report Thereon)



303 East Wacker Drive
Chicago, IL 60601-5212

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. (the Foundation) as of September 30, 1999 and 1998, 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, 1999 and 1998, and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

KPMG LLP

October 22, 1999



**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Balance Sheets

September 30, 1999 and 1998

Assets	1999	1998
Current assets:		
Cash and cash equivalents	\$ 378,586	292,954
Investments, at market value (note 3):		
Money market funds	839,654	1,847,876
Certificates of deposit	100,000	50,000
U.S. government agency issues	3,886,259	2,980,985
Corporate bonds	3,306,502	4,663,572
Common stocks	22,850,587	21,838,922
Annuity contract	99,044	61,018
Total investments	31,082,046	31,442,373
Accrued interest and dividends receivable	127,302	97,460
Prepaid expenses and other current assets	24,069	18,939
Total current assets	31,612,003	31,851,726
Program-related investments (note 2(d))	472,539	555,657
Furniture and equipment, net	9,140	12,977
Other assets	6,971	1,459
Total assets	\$ 32,100,653	32,421,819
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 57,624	52,219
Federal excise taxes payable (note 4)	78,519	40,105
Total current liabilities	136,143	92,324
Unrestricted net assets	31,964,510	32,329,495
Total liabilities and net assets	\$ 32,100,653	32,421,819

See accompanying notes to financial statements.

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Statements of Activities

Years ended September 30, 1999 and 1998

	1999	1998
Operating activities:		
Revenue:		
Interest and dividends	\$ 1,082,725	1,138,903
Net realized gain on investments	3,083,244	2,615,294
Other	4,854	4,974
Total operating revenue	4,170,823	3,759,171
Expenses:		
Grants	1,787,968	1,193,756
Management and general:		
Salaries	159,073	151,421
Payroll taxes	9,444	9,002
Professional fees:		
Investment management and custodial	178,915	175,971
Legal and accounting	35,985	33,062
Board fees and expenses	92,846	69,514
Occupancy	32,289	30,282
Office supplies	12,151	9,414
Insurance	16,456	18,792
Depreciation	4,161	3,569
Miscellaneous	27,708	26,919
Total management and general	569,028	527,946
Provision for federal excise taxes	72,828	59,340
Total operating expenses	2,429,824	1,781,042
Excess of operating revenue over expenses	1,740,999	1,978,129
Nonoperating activities – net unrealized loss on investments	(2,105,984)	(1,619,241)
Increase (decrease) in net assets	(364,985)	358,888
Unrestricted net assets, beginning of year	32,329,495	31,970,607
Unrestricted net assets, end of year	\$ 31,964,510	32,329,495

See accompanying notes to financial statements.

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Statements of Cash Flows

Years ended September 30, 1999 and 1998

	1999	1998
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (364,985)	358,888
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Net gain on investments	(977,260)	(996,053)
Depreciation	4,161	3,569
Changes in assets and liabilities:		
Accrued interest and dividends receivable	(29,842)	29,482
Prepaid expenses and other assets	(10,642)	3,767
Accounts payable and accrued expenses	5,405	3,914
Federal excise taxes payable	38,414	4,623
Net cash used in operating activities	(1,334,749)	(591,810)
Cash flows from investing activities:		
Proceeds from disposition of investments	15,004,989	17,720,908
Purchase of investments	(13,667,402)	(16,965,848)
Purchase of fixed assets	(324)	(5,739)
Repayments on (additions to) program-related investments	83,118	(236,805)
Net cash provided by investing activities	1,420,381	512,516
Net increase (decrease) in cash and cash equivalents	85,632	(79,294)
Cash and cash equivalents, beginning of year	292,954	372,248
Cash and cash equivalents, end of year	\$ 378,586	292,954

See accompanying notes to financial statements.

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Notes to Financial Statements

September 30, 1999 and 1998

(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.

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Notes to Financial Statements

September 30, 1999 and 1998

(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 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, 1999 and 1998, are summarized as follows:

	1999		1998	
	Cost	Fair market value	Cost	Fair market value
Money market funds	\$ 839,654	839,654	1,847,876	1,847,876
Certificates of deposit	100,000	100,000	50,000	50,000
U.S. government agency issues	4,020,386	3,886,259	2,762,457	2,980,985
Corporate bonds	3,393,275	3,306,502	4,566,237	4,663,572
Common stocks	17,804,891	22,850,587	15,224,005	21,838,922
Annuity contract	99,044	99,044	61,018	61,018
	<u>\$ 26,257,250</u>	<u>31,082,046</u>	<u>24,511,593</u>	<u>31,442,373</u>

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Included in U.S. government agency issues are collateralized mortgage obligations and asset-backed securities with market values of \$763,151 and \$145,813 in 1999 and 1998, respectively. Additionally, corporate bonds include collateralized mortgage obligations and asset-backed securities with market values of \$1,273,222 and \$2,047,907 in 1999 and 1998, respectively.

(4) Income Taxes

The Foundation has received a determination letter from the Internal Revenue Service indicating it is 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 1999 satisfied the required distributions as computed as of September 30, 1998. Before September 30, 2000, the Foundation is not required to distribute any grants as computed as of September 30, 1999.

(5) Lease Commitment

The Foundation has an office lease that expires in fiscal year 2005. During fiscal years 1999 and 1998, the Foundation incurred \$32,289 and \$30,282, respectively, in rent and related occupancy expenses under this lease. Minimum annual rentals due under this office lease are as follows:

2000	\$ 35,000
2001	42,000
2002	43,000
2003	44,000
2004	46,000
Thereafter	<u>27,000</u>